

GOLETA SANITARY DISTRICT

FINANCIAL STATEMENTS

June 30, 2014

GOLETA SANITARY DISTRICT
TABLE OF CONTENTS
June 30, 2014

FINANCIAL SECTION

Independent Auditors' Report..... 1
Management's Discussion and Analysis 3

BASIC FINANCIAL STATEMENTS

Statement of Net Position..... 14
Statement of Revenues, Expenses, and Changes
in Net Position 15
Statement of Cash Flows 16
Notes to Basic Financial Statements 18

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Post Employment Benefits
Other than Pensions..... 33

FINANCIAL SECTION



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

2400 PROFESSIONAL PARKWAY, STE. 205
SANTA MARIA, CA 93455
TEL: 805.925.2579
FAX: 805.925.2147
www.mlhcpas.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Goleta Sanitary District
Goleta, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Goleta Sanitary District (District) as of and for the fiscal year ended June 30, 2014, and the related notes to the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Goleta Sanitary District, as of June 30, 2014, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 2 to the basic financial statements effective July 1, 2013, Goleta Sanitary District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Correction-2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and the Schedule of Funding Progress for Post Employment Benefits Other than Pensions on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report September 25, 2014, on our consideration of the Goleta Sanitary 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* in considering the District's internal control over financial reporting and compliance.

Moss, Renz & Hartzheim LLP

Santa Maria, California
September 25, 2014

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, 2014. 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 \$92,841,750 and \$92,442,241 at the close of the June 30, 2014 and 2013 fiscal year, respectively. Of this amount, \$10,532,143 and \$9,236,497 as of June 30, 2014 and 2013 respectively may be used to meet the government's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$399,509 (\$813,398-\$413,889) and \$6,204,214 as of June 30, 2014 and 2013 respectively. This smaller increase in net position reflects two key elements effecting the reporting for FY13-14. First, the non-operating results include a loss of \$2,385,542 due to the disposition of old assets related to the Plant Upgrade project among others as discussed further below. The second element is the prior period adjustment in the amount of \$413,889 related to the CalPERS Side-Fund, this change was due to a clarification made by the GASB during the fiscal year regarding reporting requirements. These two elements when combined with operating and non-operating revenues and expenses resulted in a loss in the amount of \$423,916, where as in FY12-13 this combination resulted in a gain in the amount of \$2,245,189.
- Capital contributions were made to the District in the amount of \$1,237,314 and \$3,959,025 as of June 30, 2014 and 2013, respectively.
- The Goleta Sanitary District's State Revolving Loan debt decreased by \$143,981 (49.3%) and \$140,060 (32.4%) during June 30, 2014 and 2013 respectively. The key factor of the decrease was the annual principal payment.

Overview of the Financial Statements

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

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

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 14-17 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 18-31 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 position 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 \$92,841,750 and \$92,442,241 at the close of June 30, 2014 and 2013, respectively.

By far the largest portion of the Goleta Sanitary District's net position, \$78,998,076 (85 percent) and \$82,133,852 (89 percent) as of June 30, 2014 and 2013, 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, 2014</u>	<u>June 30, 2013¹</u>	<u>June 30, 2012</u>
Current Assets	\$ 11,311,310	\$ 9,968,639	\$ 11,392,753
Noncurrent Assets	<u>82,457,620</u>	<u>83,497,738</u>	<u>77,881,624</u>
Total Assets	<u>\$ 93,768,930</u>	<u>\$ 93,466,377</u>	<u>\$ 89,274,377</u>
Current liabilities	\$ 493,119	\$ 627,261	\$ 2,550,223
Noncurrent Liabilities	<u>434,061</u>	<u>396,875</u>	<u>486,127</u>
Total Liabilities	<u>\$ 927,180</u>	<u>\$ 1,024,136</u>	<u>\$ 3,036,350</u>
Net Position:			
Net Investment in Capital Assets	\$ 78,988,076	\$ 82,133,852	\$ 76,461,552
Restricted	3,311,531	1,071,892	988,018
Unrestricted	<u>10,532,143</u>	<u>9,236,497</u>	<u>8,788,457</u>
Total Net Position	<u>\$ 92,841,750</u>	<u>\$ 92,442,241</u>	<u>\$ 86,238,027</u>

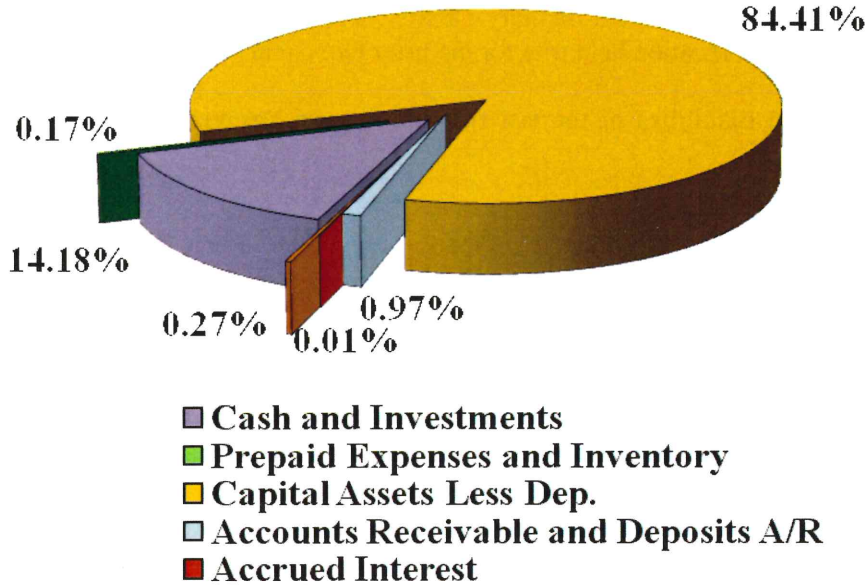
¹ The values for 2013 for Current vs. Noncurrent have been adjusted to reflect a corrected classification in the amount of \$28,391.

An additional portion of the Goleta Sanitary District's net position, \$3,311,531 (3.6%) and \$1,071,892 (1.2%) as of June 30, 2014 and 2013, respectively, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$10,532,143 and \$9,236,497 as of June 30, 2014 and 2013, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

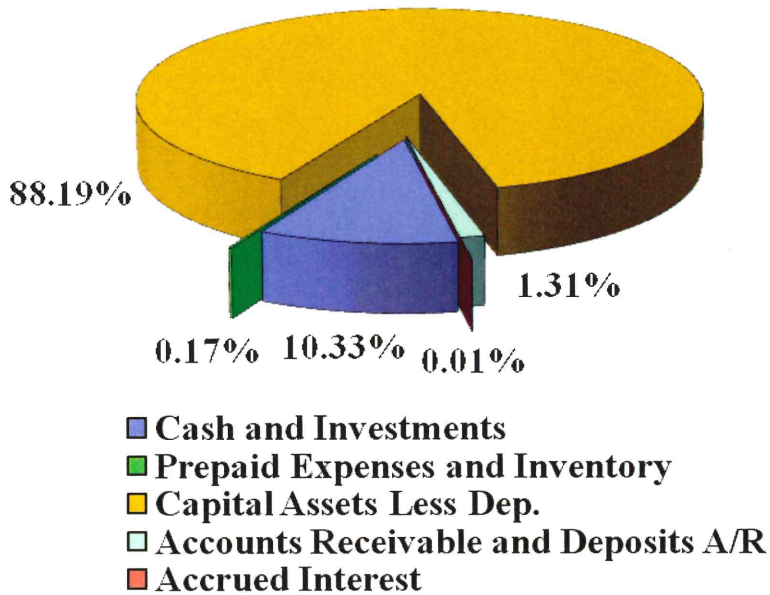
At the end of the current fiscal year, the Goleta Sanitary District is able to report positive balances in all three categories of net position. The same situation held true for the prior two fiscal years.

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

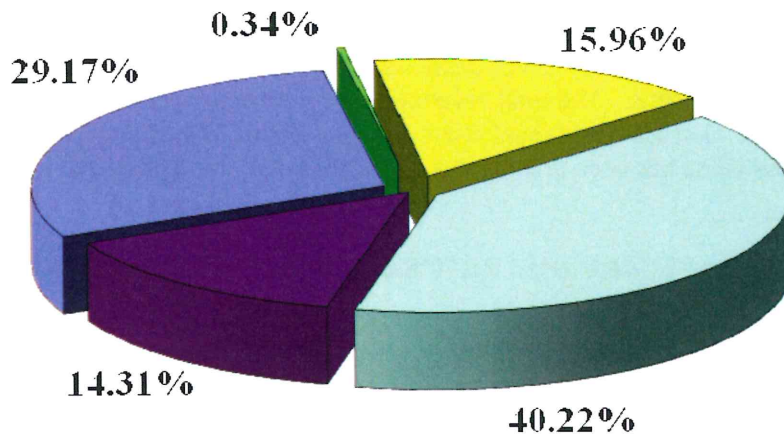
ASSETS FY 13-14



ASSETS FY 12-13

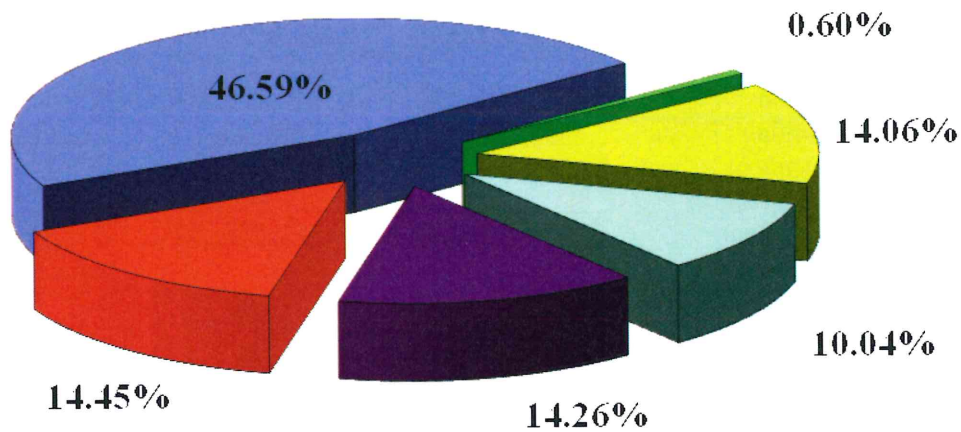


LIABILITIES FY 13-14



- Accounts Payable and Accrued Expenses
- Accrued Interest
- State Revolving Loan (current)
- CalPERS Side-Fund, (current+Non)
- Accrued Compensated Absences

LIABILITIES FY 12-13



- Accounts Payable and Accrued Expenses
- Accrued Interest
- State Revolving Loan (current)
- Net OPEB Obligation
- Accrued Compensated Absences
- State Revolving Loan (long term)

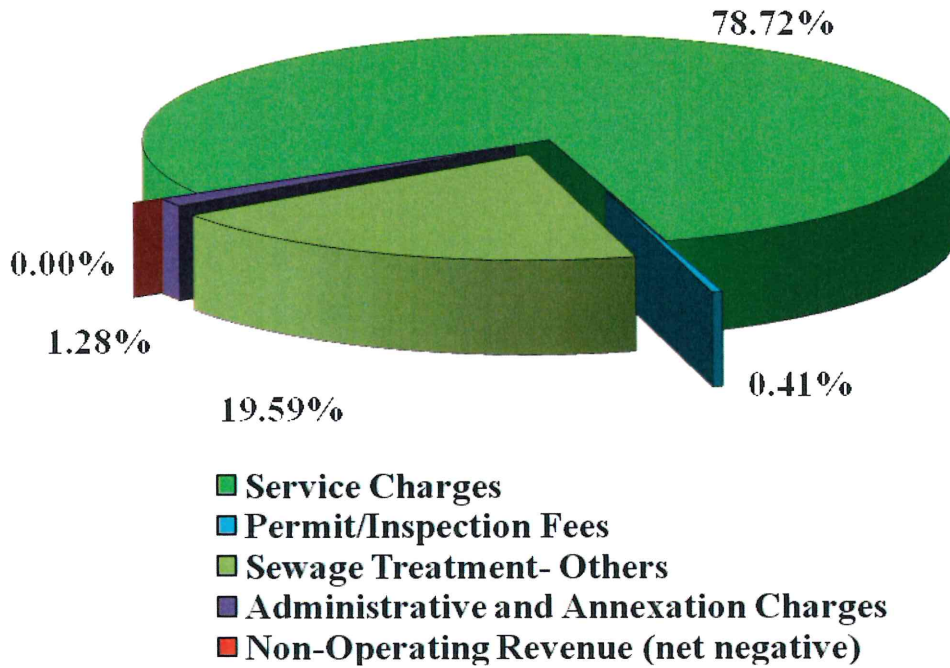
Business-type activities. The business-type activities increased the Goleta Sanitary District's net position by \$813,398 and \$6,204,214 as of June 30, 2014 and 2013, respectively. The Key elements are as follows: Operating and non-operating expenses exceeded operating and non-operating revenues by \$423,916 as of June 30, 2014 where as operating and non-operating revenues exceeded operating and non-operating expenses by \$2,245,189 as of June 30, 2013. Capital contributions to the District's system totaled \$1,237,314 and \$3,959,025 as of June 30, 2014 and 2013, respectively, for a net decrease of \$2,721,711 as of June 30, 2014, and a net decrease of \$9,502,270 as of June 30, 2013. The total revenues exceeded expenses during the 2013-2014 fiscal year reflecting payments from the District contractual users for completing the plant upgrading project. The District's construction in progress value has been recorded as capitalized amounts as detailed in Note 4, page 25.

GOLETA SANITARY DISTRICT'S CHANGE IN NET POSITION

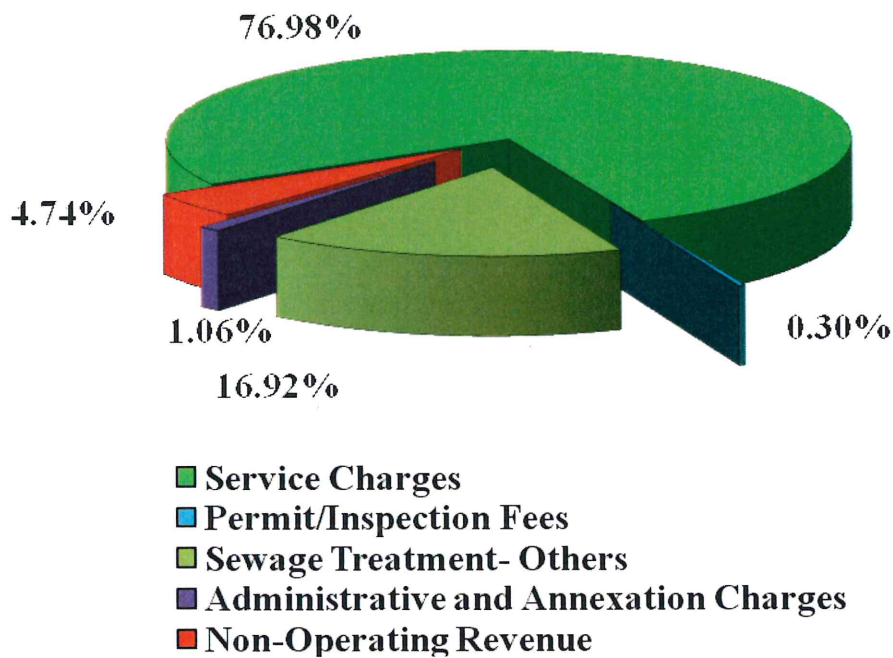
	<u>June 30, 2014</u>	<u>June 30, 2013²</u>	<u>June 30, 2012</u>
Revenues:			
Service Charges	\$ 8,215,356	\$ 8,235,493	\$ 7,839,872
Other Operating	2,220,618	1,955,457	1,922,434
Capital Contributions	1,237,314	3,959,025	13,461,294
Non-operating	<u>(1,981,477)</u>	<u>506,935</u>	<u>312,955</u>
Total Revenues	<u>\$ 9,691,811</u>	<u>\$ 14,656,910</u>	<u>\$ 23,536,555</u>
Expenses:			
Sewer Collection	\$ 1,761,739	\$ 1,755,450	\$ 1,685,355
Sewage Treatment	5,322,160	4,611,198	4,300,343
Plant Pump Station	146,754	140,983	121,037
Sewage Disposal	116,167	114,896	108,339
Administrative	798,753	1,175,140	1,222,484
Wastewater Reclamation	<u>732,840</u>	<u>655,029</u>	<u>664,042</u>
Total Expenses	<u>\$ 8,878,413</u>	<u>\$ 8,452,696</u>	<u>\$ 8,101,600</u>
Increase in Net Position	\$ 813,398	\$ 6,204,214	\$ 15,434,955
Net Position – Beginning of Year	<u>92,028,352</u>	<u>86,238,027</u>	<u>70,803,072</u>
Net before adjustment	\$ 92,841,750	\$ 92,442,241	\$ 86,238,027
Adjustment for FY12-13		<u>-413,889</u>	<u>-0-</u>
Net Position – End of Year	<u>\$ 92,841,750</u>	<u>\$ 92,028,352</u>	<u>\$ 86,238,027</u>

² The Net Position – End of Year for June 30, 2013 reflects the period adjustment amount of -\$413,889 re CalPERS Side-fund.

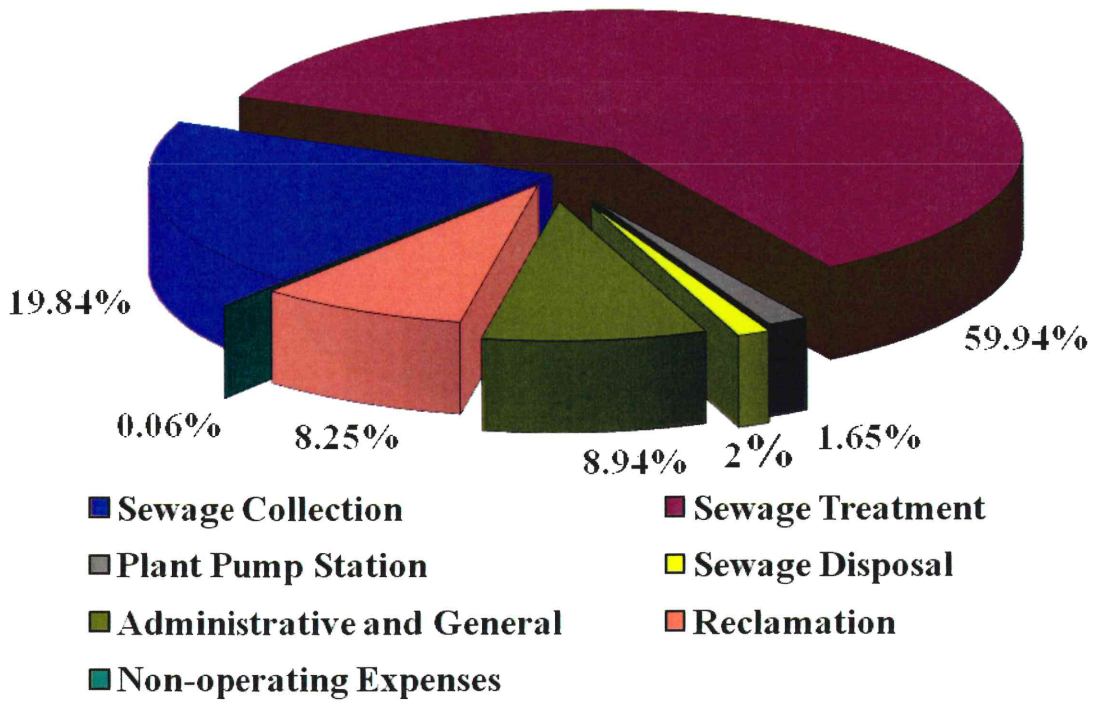
REVENUES FY 13-14



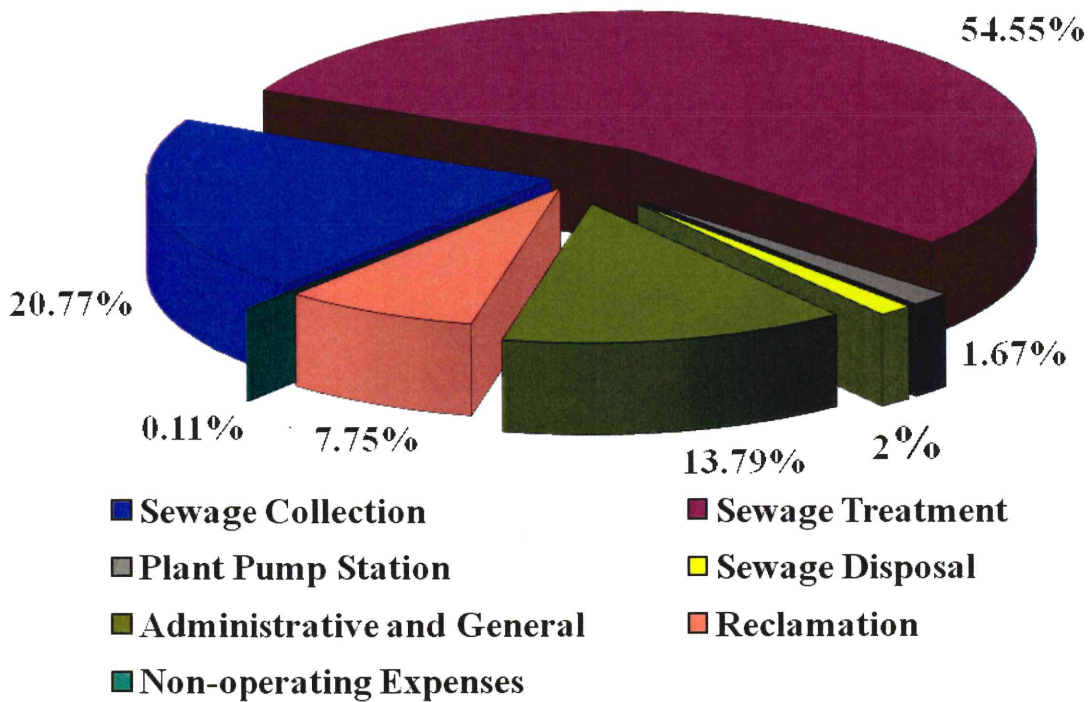
REVENUES FY 12-13



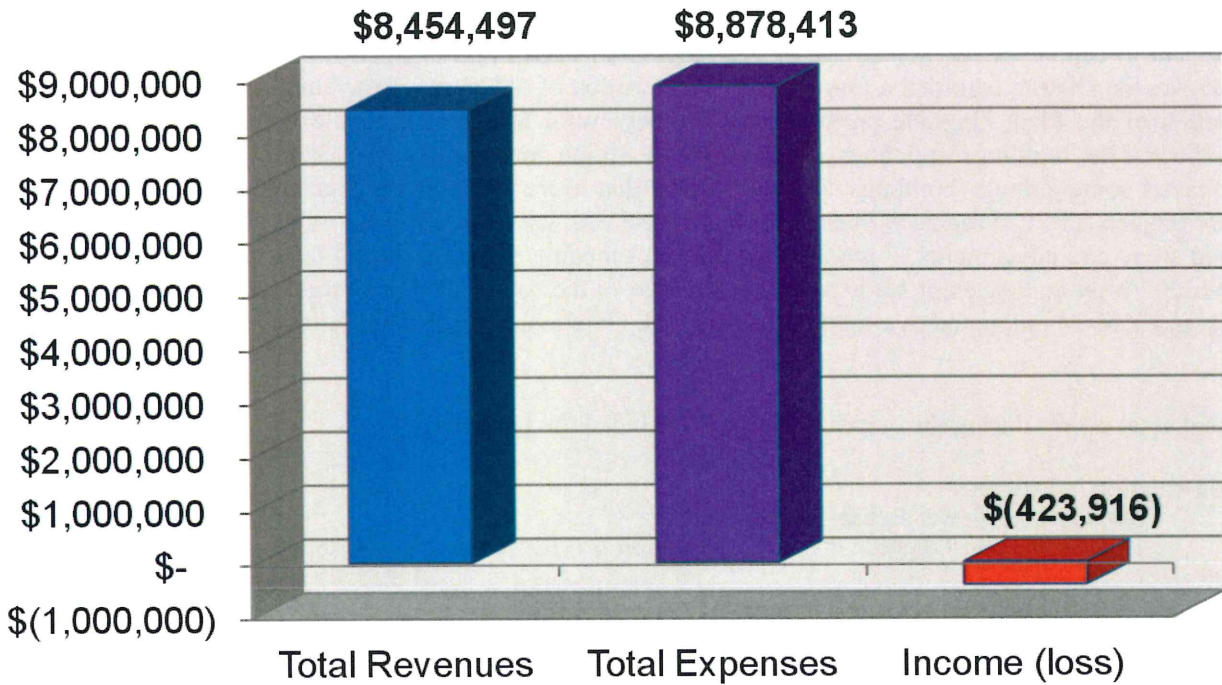
EXPENSES FY 13-14



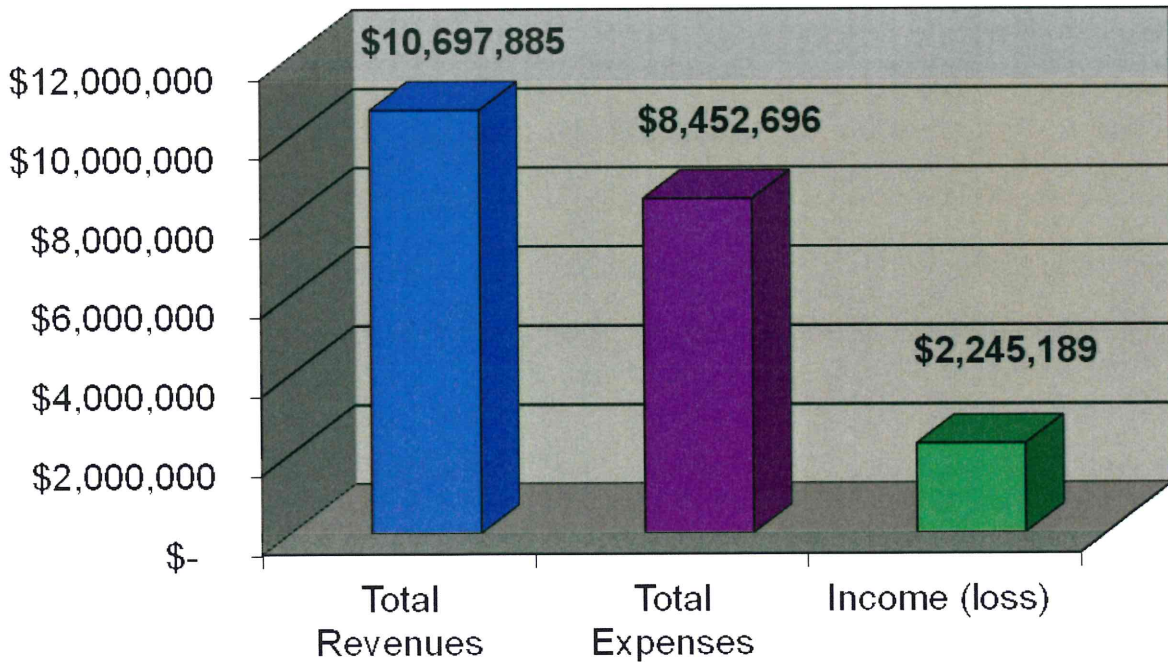
EXPENSES FY 12-13



REVENUES AND EXPENSES FY 13-14



REVENUES AND EXPENSES FY 12-13



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, 2014 and June 30, 2013 amounts to \$79,146,089 and \$82,425,846 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. As noted above, the District recorded a loss related to disposition of old assets in the amount of \$2,385,542. After the completion of the Plant Upgrade project a detailed review of the asset schedule was made to be sure the schedule reflected the buildings, pipelines, machinery and equipment in use by the District. The Plant Upgrade project replaced some piping, buildings and equipment that were not fully depreciated, some of the sewer replacement projects also had replaced lines not fully depreciated, however not yet written of the District's books. The detailed study and adjustments to produce the current schedule of assets should be a valuable starting point for the Districts Asset management study and a factor used in the sewer service charge rate setting model. The adjustments in FY13-14 amounted to a total decrease in the Goleta Sanitary District's investment in capital assets of 3.79%

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

Construction in Progress
 Modoc Road Sewer Rehabilitation
 Treatment Plant Upgrade Project Completion is reflected in the table below

GOLETA SANITARY DISTRICT'S CAPITAL ASSETS

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Land	\$ 327,243	\$ 327,243	\$ 327,243
Construction in Progress	150,347	39,542,386	32,046,218
Collection Facilities	22,529,343	22,623,427	22,589,024
Treatment Facilities	67,848,328	33,928,059	33,846,131
Disposal Facilities	3,743,731	3,743,731	3,743,731
Admin Facilities	2,964,049	2,989,644	2,989,644
Wastewater Reclamation	<u>14,966,485</u>	<u>14,963,398</u>	<u>14,907,813</u>
 Total	 <u>\$ 112,529,526</u>	 <u>\$ 118,117,888</u>	 <u>\$ 110,449,804</u>
 Less Accumulated Depreciation	 <u>\$ (33,383,437)</u>	 <u>\$ (35,692,042)</u>	 <u>\$ (33,556,198)</u>
 Net Capital Assets	 <u>\$ 79,146,089</u>	 <u>\$ 82,425,846</u>	 <u>\$ 76,893,606</u>

Additional information on the Goleta Sanitary District's capital assets can be found in Note 4 on page 25 of this report.

Long-term debt. At the end of June 30, 2014 and 2013, the Goleta Sanitary District had a total current and long-term debt of \$148,013 and \$291,994. This debt was incurred for the Outfall Reballasting project. The term of this loan runs through FY14-15. 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

	2014	2013	2012
State Revolving Fund Loan	\$ 148,013	\$ 291,994	\$ 432,054
Total	\$ 148,013	\$ 291,994	\$ 432,054

The Goleta Sanitary District's total debt decreased by \$143,981 (49.3%), \$140,060 (32.4%), \$136,244 (23.9%), during June 30, 2014, 2013 and 2012, 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 26 of this report.

Economic Factors and Next Year's Budgets and Rates

The District reviewed its sewer service fees for 2013-2014 and determined that no 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 2013-14. The rate includes \$11.31 per month per dwelling unit to finance the District's Plant Upgrading Project, including the repayment of District interfund loans. 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 2013-14 single family dwelling monthly user charge is \$37.80 (\$24.49 for O&M, \$11.31 for the Plant Upgrading Project and \$2.00 for 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 2013-2014 fiscal year to determine the District's Annual Required Contribution (ARC) to the OPEB Fund in order to meet the obligation of providing the Retiree Medical Insurance. The actuarial report prepared during Fiscal Year 2013-2014 reported an ARC of \$179,110. The District paid \$130,016 to CERBT, towards the annual liability and paid a sum of \$69,230 to the retirees as reimbursement or directly to CalPERS for the Retiree health insurance coverage. A total of \$199,246 is credited towards the ARC for fiscal 2013-14.

In addition the total Unfunded Actuarial Accrued liability as of July 1, 2013 is \$1,288,176 as defined by the actuarial analysis dated April 1, 2014.

Requests for Information

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

GOLETA SANITARY DISTRICT
STATEMENT OF NET POSITION - ENTERPRISE FUND
June 30, 2014
With Comparative Totals for June 30, 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current:		
Cash and investments	\$ 10,238,633	\$ 8,582,288
Receivables:		
Accounts	905,650	1,220,454
Accrued interest	4,864	4,370
Inventories	105,671	98,169
Prepaid expenses	56,492	63,358
	<u>11,311,310</u>	<u>9,968,639</u>
Noncurrent:		
Restricted:		
Cash and investments	3,053,664	1,071,255
Accrued interest receivable	1,502	637
Net OPEB Asset	256,365	
Capital assets - net	79,146,089	82,425,846
	<u>82,457,620</u>	<u>83,497,738</u>
	<u>93,768,930</u>	<u>93,466,377</u>
Liabilities		
Current:		
Accounts payable and accrued liabilities	270,474	477,148
Accrued interest	3,108	6,132
Loan payable, current portion	148,013	143,981
CalPERS Side-Fund, current portion	71,524	
	<u>493,119</u>	<u>627,261</u>
Noncurrent:		
Accrued compensation	132,652	146,039
Net OPEB obligation		102,823
CalPERS Side-Fund	301,409	
Loan payable		148,013
	<u>434,061</u>	<u>396,875</u>
	<u>927,180</u>	<u>1,024,136</u>
Net Position		
Net investment in capital assets	78,998,076	82,133,852
Restricted	3,311,531	1,071,892
Unrestricted	10,532,143	9,236,497
	<u>\$ 92,841,750</u>	<u>\$ 92,442,241</u>

The notes to basic financial statements are an integral part of this statement.

GOLETA SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Service charges	\$ 8,215,356	\$ 8,235,493
Permit and inspection fees	42,293	32,124
Sewage treatment-other agencies	2,044,834	1,809,961
Administrative charges	133,491	113,372
	<hr/>	<hr/>
Total operating revenues	10,435,974	10,190,950
	<hr/>	<hr/>
Operating Expenses:		
Sewage collection	1,761,739	1,755,450
Sewage treatment	5,322,160	4,611,198
Plant pump station	146,754	140,983
Sewage disposal	116,167	114,896
Administrative and general	793,601	1,165,984
Wastewater reclamation	732,840	655,029
	<hr/>	<hr/>
Total operating expenses	8,873,261	8,443,540
	<hr/>	<hr/>
Operating income (loss)	1,562,713	1,747,410
	<hr/>	<hr/>
Nonoperating Revenues (Expenses):		
Property tax	128,015	136,864
Grant		200,753
Intergovernmental	804	818
Investment earnings	18,873	15,420
Interest expense	(5,152)	(9,156)
Annexation charges	91,116	2,750
Reimbursements from participating agencies	73,344	70,906
Other	91,913	79,424
Gain (loss) on disposal of capital assets	(2,385,542)	
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(1,986,629)	497,779
	<hr/>	<hr/>
Income (loss) before capital contributions	(423,916)	2,245,189
	<hr/>	<hr/>
Capital contributions	1,237,314	3,959,025
	<hr/>	<hr/>
Change in net position	813,398	6,204,214
	<hr/>	<hr/>
Net position, beginning of fiscal year	92,442,241	86,238,027
Prior period adjustment	(413,889)	
	<hr/>	<hr/>
Net position, beginning of fiscal year - restated	92,028,352	86,238,027
	<hr/>	<hr/>
Net position, end of fiscal year	<u>\$ 92,841,750</u>	<u>\$ 92,442,241</u>

The notes to basic financial statements are an integral part of this statement.

GOLETA SANITARY DISTRICT
STATEMENT OF CASH FLOWS - ENTERPRISE FUND
For the Fiscal Year Ended June 30, 2014
With Comparative Totals for the Fiscal Year Ended June 30, 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 10,750,778	\$ 11,149,108
Payments to suppliers	(2,800,730)	(4,261,748)
Payments to employees	(4,081,876)	(3,916,022)
Net cash provided by operating activities	<u>3,868,172</u>	<u>2,971,338</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	128,015	136,864
Grants		200,753
Reimbursements from other governments	73,344	70,906
Annexation charges	91,116	2,750
Other revenue	91,913	79,424
Net cash provided by noncapital financing activities	<u>384,388</u>	<u>490,697</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	1,237,314	3,959,025
Acquisition and construction of capital assets	(1,718,281)	(7,668,084)
Principal paid on long-term debt	(143,981)	(140,060)
Interest paid on long-term debt	(8,176)	(12,097)
Intergovernmental	804	818
Proceeds from sales of capital assets	1,000	
Net cash used by capital and related financing activities	<u>(631,320)</u>	<u>(3,860,398)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	17,514	17,835
Net cash provided by investing activities	<u>17,514</u>	<u>17,835</u>
Net (decrease) in cash and cash equivalents	3,638,754	(380,528)
Cash and cash equivalents, July 1	<u>9,653,543</u>	<u>10,034,071</u>
Cash and cash equivalents, June 30	<u>\$ 13,292,297</u>	<u>\$ 9,653,543</u>
Reconciliation to Statement of Net Position:		
Cash and investments - cash equivalents	\$ 10,238,633	\$ 8,582,288
Restricted cash and investments - cash equivalents	<u>3,053,664</u>	<u>1,071,255</u>
	<u>\$ 13,292,297</u>	<u>\$ 9,653,543</u>

The notes to basic financial statements are an integral part of this statement.

GOLETA SANITARY DISTRICT
 STATEMENT OF CASH FLOWS - ENTERPRISE FUND
 For the Fiscal Year Ended June 30, 2014
 With Comparative Totals for the Fiscal Year Ended June 30, 2013

	<u>2014</u>	<u>2013</u>
Reconciliation to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 1,562,713	\$ 1,747,410
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,611,496	2,135,844
Change in assets and liabilities:		
Accounts receivable	314,804	958,158
Inventory	(7,502)	7,563
Prepaid expenses	6,866	(8,424)
Accounts payables	(206,674)	(1,923,942)
Net OPEB obligation	(359,188)	60,433
CalPERS Side-Fund	(40,956)	
Compensated absences	(13,387)	(5,704)
	<u>\$ 3,868,172</u>	<u>\$ 2,971,338</u>
Net cash provided by operating activities		

The notes to basic financial statements are an integral part of this statement.

NOTE 1 - REPORTING ENTITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The enterprise fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

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

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

B. Plant Capacity Rights

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

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

	<u>Capacity Rights in Plant</u>	<u>Capacity Rights In Ocean Outfall Line</u>
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%
	<u>100.00%</u>	<u>100.00%</u>

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Procedures

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

D. Deposits and Investments

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

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

E. Prepaid Costs

Payments to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid items. The District utilizes the consumption method of accounting for purchases, and accounts for prepaid costs in the period that the benefit was received and recognizes expenses as consumed.

F. Inventories

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

G. Capital Assets

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

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences Liability

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

In accordance with accounting principles generally accepted in the United States of America, the liability is reflected on the Statement of Net Position and the current year allocation has been expensed. The balance at June 30, 2014 and 2013 was \$136,652 and \$146,039, respectively. The full amount is shown as a noncurrent liability because it is not expected to be paid out within the next year.

I. Restricted Assets

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

J. Capital Contributions

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

K. Uncollectible Accounts

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

L. Property Taxes

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

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

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

The District does not receive a substantial amount of property taxes. For the fiscal year ended June 30, 2014 and 2013, the District received \$128,015 and \$136,864, respectively. The District does not receive property tax from every parcel in its service area, only those parcels for which the property taxes were negotiated at the time it was annexed.

M. Use of Estimates

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

O. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of the GASB Statement No. 65 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Correction - 2012." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. Implementation of the GASB Statement No. 70 did not have an impact on the District's financial statements for the fiscal year ended June 30, 2014.

P. Comparative Data/Totals Only

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

NOTE 3 - CASH AND INVESTMENTS

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

	2014	2013
Cash on hand	\$ 564	\$ 136
Deposits with financial intitutions	529,021	947,841
Investments	12,762,712	8,705,566
	<u>\$ 13,292,297</u>	<u>\$ 9,653,543</u>

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

	2014	2013
Cash and investments	\$ 10,238,633	\$ 8,582,288
Restricted cash and investments	3,053,664	1,071,255
Total cash and investments	<u>\$ 13,292,297</u>	<u>\$ 9,653,543</u>

Investments Authorized by the District's Investment Policy

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	N/A	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase and Reverse Repurchase Agreements	92 days	20% of base value	None

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments Authorized by the District's Investment Policy (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Medium-Term Notes	5 years	30%	None
Mutual Funds	5 years	15%	10%
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	N/A	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
State Registered Warrants, Notes or Bonds	N/A	None	None
Notes and Bonds for other Local California Agencies	5 years	None	None

Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Carrying Amount	2014			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
State investment pool (LAIF)	\$ 12,762,712	\$ 12,762,712	\$ -	\$ -	\$ -
	\$ 12,762,712	\$ 12,762,712	\$ -	\$ -	\$ -
Investment Type	Carrying Amount	2013			
		Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
State investment pool (LAIF)	\$ 8,705,566	\$ 8,705,566	\$ -	\$ -	\$ -
	\$ 8,705,566	\$ 8,705,566	\$ -	\$ -	\$ -

GOLETA SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2014

NOTE 3 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

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

Investment Type	Carrying Amount	Minimum Legal Rating	2014			
			Rating as of Fiscal Year End			Not Rated
			AAA	A+	Baa	
State investment pool (LAIF)	\$ 12,762,712	N/A	\$ -	\$ -	\$ -	\$ 12,762,712
	<u>\$ 12,762,712</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,762,712</u>

Investment Type	Carrying Amount	Minimum Legal Rating	2013			
			Rating as of Fiscal Year End			Not Rated
			AAA	A+	Baa	
State investment pool (LAIF)	\$ 8,705,566	N/A	\$ -	\$ -	\$ -	\$ 8,705,566
	<u>\$ 8,705,566</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,705,566</u>

Custodial Credit Risk

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

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 temporarily for an unlimited amount up to December 31, 2014, and up to at least \$250,000 afterwards.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investment. With respect to investments, custodial credit risk generally applies to direct investments in marketable securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

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

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

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

GOLETA SANITARY DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2014

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 and June 30, 2013 was as follows:

	Balance July 1, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 327,243	\$ -	\$ -	\$ -	\$ 327,243
Construction in progress	39,542,386	1,411,329		(40,803,368)	150,347
Total capital assets not being depreciated	<u>\$ 39,869,629</u>	<u>\$ 1,411,329</u>	<u>\$ -</u>	<u>\$ (40,803,368)</u>	<u>\$ 477,590</u>
Capital assets being depreciated:					
Collection facilities	\$ 22,623,427	\$ 144,553	\$ (621,521)	\$ 382,884	\$ 22,529,343
Treatment facilities	33,928,059	154,010	(6,654,225)	40,420,484	67,848,328
Disposal facilities	3,743,731				3,743,731
General administrative facilities	2,989,644	3,500	(29,095)		2,964,049
Wastewater reclamation facility	14,963,398	4,889	(1,802)		14,966,485
	<u>78,248,259</u>	<u>306,952</u>	<u>(7,306,643)</u>	<u>40,803,368</u>	<u>112,051,936</u>
Less accumulated depreciation	<u>35,692,042</u>	<u>2,611,496</u>	<u>4,920,101</u>		<u>33,383,437</u>
Total capital assets being depreciated, net	<u>\$ 42,556,217</u>	<u>\$ (2,304,544)</u>	<u>\$ (2,386,542)</u>	<u>\$ 40,803,368</u>	<u>\$ 78,668,499</u>
Net capital assets	<u>\$ 82,425,846</u>	<u>\$ (893,215)</u>	<u>\$ (2,386,542)</u>	<u>\$ -</u>	<u>\$ 79,146,089</u>
	Balance July 1, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Capital assets not being depreciated:					
Land	\$ 327,243	\$ -	\$ -	\$ -	\$ 327,243
Construction in progress	32,046,218	7,496,168			39,542,386
Total capital assets not being depreciated	<u>\$ 32,373,461</u>	<u>\$ 7,496,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,869,629</u>
Capital assets being depreciated:					
Collection facilities	\$ 22,589,024	\$ 34,403	\$ -	\$ -	22,623,427
Treatment facilities	33,846,131	81,928			33,928,059
Disposal facilities	3,743,731				3,743,731
General administrative facilities	2,989,644				2,989,644
Wastewater reclamation facility	14,907,813	55,585			14,963,398
	<u>78,076,343</u>	<u>171,916</u>			<u>78,248,259</u>
Less accumulated depreciation	<u>33,556,198</u>	<u>2,135,844</u>			<u>35,692,042</u>
Total capital assets being depreciated, net	<u>\$ 44,520,145</u>	<u>\$ (1,963,928)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,556,217</u>
Net capital assets	<u>\$ 76,893,606</u>	<u>\$ 5,532,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,425,846</u>

GOLETA SANITARY DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2014

NOTE 5 – LONG-TERM LIABILITIES

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2014 and June 30, 2013:

	Balance July 1, 2013	Additions	Retirements	Prior-Period Adjustment	Balance June 30, 2014	Due Within One Year
State revolving fund loan	\$ 291,994	\$ -	\$ 143,981	\$ -	\$ 148,013	\$ 143,981
Compensated absences	146,039	208,401	221,788		132,652	
Other post employment benefits	102,823		102,823			
CalPERS Side-Fund		28,485	69,441	413,889	372,933	71,524
Total long-term liabilities	\$ 540,856	\$ 236,886	\$ 538,033	\$ 413,889	\$ 653,598	\$ 215,505

	Balance July 1, 2012	Additions	Retirements	Prior-Period Adjustment	Balance June 30, 2013	Due Within One Year
State revolving fund loan	\$ 432,054	\$ -	\$ 140,060	\$ -	\$ 291,994	\$ 143,981
Compensated absences	151,743	219,450	225,154		146,039	
Other post employment benefits	42,390	237,238	176,805		102,823	
Total long-term liabilities	\$ 626,187	\$ 456,688	\$ 542,019	\$ -	\$ 540,856	\$ 143,981

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

Fiscal Year Ending	Principal	Interest	Total
2015	\$ 148,013	\$ 4,144	\$ 152,157
	\$ 148,013	\$ 4,144	\$ 152,157

Public Employees Retirement System Side Fund

At the time the District joined the Public Employees Retirement System (PERS) Risk Pool, a side fund was required to be created to account for the difference between the funded status of the pool and the funded status of the District's plan, in addition to the existing plan's unfunded liability. The side fund will be credited, in an annual basis, with the actuarial investment return assumption which was 7.75% prior to July 1, 2013 and 7.5% after that date. A side fund liability will cause the District's required PERS employer contribution rate to increase by the amortization of the side fund. The side fund liability for the District's miscellaneous plan as of June 30, 2014 was \$372,933.

NOTE 6 – NET POSITION

There are three main components of net position: Net Investment in Capital Assets, restricted and unrestricted. Net Investment in Capital Assets represents the District's capital assets net of depreciation that are unencumbered by debt. Restricted net position consists of amounts that have legal restrictions imposed by parties outside of the reporting entity.

Unrestricted net position is a catchfall for all remaining net position not accounted for in the other two categories.

The following is included in Restricted Net Position:

Reserve for Plant Capacity Expansion

This reserve is related to that portion of the District's net assets attributable to capacity expansion connection fees. Such fees can only be used for plant expansion. At June 30, 2014 and 2013, this reserve was \$3,055,166 and \$1,071,892, 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.

B. Self-Insurance Programs of the Authority

General Liability Insurance

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

Workers Compensation Insurance

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

Property Protection

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

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

NOTE 8 – 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 as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute 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 to 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, 2014 and 2013 was 14.807% and 13.776%, 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 the fiscal year ended June 30, 2014 and 2013, the District’s annual pension cost was \$490,557 and \$462,470, 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, 2011 and 2010, using the entry age normal actuarial cost method.

Fiscal Year	Three Year Trend Information for Cal PERS		
	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 434,830	100%	\$ -
6/30/2013	\$ 462,470	100%	\$ -
6/30/2014	\$ 490,557	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 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 of the CERBT may be obtained by writing to CalPERS at Lincoln Plaza North 400 Q Street, Sacramento, and CA 95814 or by visiting the CalPERS website at www.calpers.ca.gov.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

B. Funding Policy

In 2009, the District joined the CalPERS medical program. In 2014, the District contributes the full cost of retiree and spousal coverage, up to the cost of PERS Choice coverage in comparison to the “unequal contribution” approach that was used at the inception of the CalPERS medical program. The District’s contribution will be based on each retiree’s age and enrollment status. The contribution requirements of plan members and the District are established and may be amended by the District and the employee associations. Currently, contributions are not required from plan members.

A contribution of \$199,246 was made during the 2013-2014 fiscal year. The District calculated and recorded a net OPEB obligation, representing the difference between the annual required contribution (ARC) and actual contributions, as presented on below:

	<u>2014</u>	<u>2013</u>
Annual required contribution (ARC)	\$ 179,110	\$ 237,443
Interest on net OPEB obligation	(332,247)	(1,382)
Adjustment to ARC	<u>(6,805)</u>	<u>1,177</u>
Annual OPEB cost	(159,942)	237,238
Contributions made	<u>(199,246)</u>	<u>(176,805)</u>
(Decrease) increase in net OPEB obligation	(359,188)	60,433
Net OPEB Obligation (asset) - Beginning of fiscal year	<u>102,823</u>	<u>42,390</u>
Net OPEB Obligation (asset) - end of fiscal year	<u><u>\$ (256,365)</u></u>	<u><u>\$ 102,823</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB (obligation) asset for 2013-2014 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution (Net of Adjustments)</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2012	\$ 228,826	\$ 168,275	74%	\$ 42,390
6/30/2013	\$ 237,238	\$ 176,805	75%	\$ 102,823
6/30/2014	\$ (159,942)	\$ 199,246	N/A	\$ (256,365)

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 present multiyear information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Only two years are presented as there is no complete multiyear trend information to present.

NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)

C. Funded Status and Funding Progress (Continued)

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 July 1, 2013, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 7.61% discount rate and a 3.25% annual increase in payroll.

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 valuation date, and annual healthcare cost trend rate of 5.0% to 6.7%. The actuarial value of assets is set equal to the reported fair 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, 2013, was twenty-six years. The number of active participants is 37.

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 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, and the land will revert to the seller or its successor, at the acquisition price.

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. The District's Plant Upgrade Construction Project that achieved the conversion to full secondary treatment was completed during the fiscal year ended June 30, 2014.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

C. CONSTRUCTION COMMITMENTS

The District had construction contract commitments at June 30, 2014 of \$497,659.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date the financial statements were available for issuance which is September 25, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

GOLETA SANITARY DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS
OTHER THAN PENSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

The following table provides required supplementary information regarding the District's post employment healthcare benefits.

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
1/1/2010	\$ 272,130	\$2,773,266	\$ 2,501,136	11%	\$ 2,521,908	99%
7/1/2011	\$ 681,082	\$2,434,225	\$ 1,753,143	39%	\$ 2,610,175	67%
7/1/2013	\$1,056,765	\$2,344,941	\$ 1,288,176	82%	\$ 2,502,533	51%