



Moss, Levy & Hartzheim LLP

Certified Public Accountants

October 27, 2015

To the Board of Directors  
Goleta Sanitary District,

We have audited the basic financial statements of the Goleta Sanitary District as of and for the fiscal year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 25, 2015. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Goleta Sanitary District are described in Note 2 to the financial statements. As discussed in note 2 to basic financial statements effective July 1, 2014, the Goleta Sanitary District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We noted no transactions entered into by the governmental unit during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting Goleta Sanitary District's financial statements was:

Management's estimate of the useful lives of capital assets is based on experience with other capital assets and on their standard table of useful lives. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Pension Plan in Note 8 to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 27, 2015.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Goleta Sanitary District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Moss, Levy & Haugheim LLP*

October 27, 2015

Santa Maria, California



Moss, Levy & Hartzheim LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Goleta Sanitary District
Goleta, California

We have audited, in accordance with the 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, the basic financial statements of the Goleta Sanitary District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, Levy & Hartzheim LLP

Santa Maria, California
October 27, 2015

**GOLETA SANITARY DISTRICT**

**FINANCIAL STATEMENTS**

June 30, 2015

**GOLETA SANITARY DISTRICT**  
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**FINANCIAL SECTION**



Moss, Levy & Hartzheim LLP

Certified Public Accountants

## 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, 2015, 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, 2015, 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, 2014, the Goleta Sanitary District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

***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, the Schedule of Funding Progress for Post Employment Benefits Other than Pensions on page 36, the Schedule of Proportionate Share of Net Pension Liability on page 37, and the Schedule of Contributions on page 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Report on Summarized Comparative Information***

We have previously audited the Goleta Sanitary District's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2014. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2014, is consistent in all material respects, with the audited financial statements from it has been derived.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report October 27, 2015, 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, Remy & Haugheim LLP*

Santa Maria, California  
October 27, 2015



## 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, 2015. We encourage readers to consider the information presented here in conjunction with the audit report.

### Financial Highlights

- The assets and deferred outflows of resources of the Goleta Sanitary District exceeded its liabilities and deferred inflows of resources by \$91,375,632 and \$92,841,750 at the close of the June 30, 2015 and 2014 fiscal year, respectively. Of this amount, \$9,131,736 and \$10,532,143 as of June 30, 2015 and 2014 respectively may be used to meet the government's ongoing obligations to citizens and creditors.
- The District's total net position decreased by \$1,466,118 (\$1,396,315-\$2,862,433) as of June 30, 2015 and increased by \$399,509 (\$813,398-\$413,889) as of June 30, 2014. This decrease in net position reflects the reporting for FY14-15 of a prior period adjustment in the amount of \$2,862,433 related to the CalPERS pension liability as required and clarified by the CalPERS GASB 68 report during the fiscal year regarding reporting requirements. An adjustment related to the CalPERS side-fund was made in the prior year in the amount of \$413,889 is part of the net pension liability as a result of the same CalPERS GASB 68 report.
- When operating and non-operating revenues are combined, less operating expenses, results in income in the amount of \$880,942 for FY14-15, where as in FY13-14 this combination, resulted in a loss in the amount of \$423,916.
- Capital contributions were made to the District in the amount of \$515,373 and \$1,237,314 as of June 30, 2015 and 2014, respectively.
- The Goleta Sanitary District's State Revolving Loan debt was paid in full in FY14-15.

### Overview of the Financial Statements

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

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

The statement of 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 18-34 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$91,375,632 and \$92,841,750 at the close of June 30, 2015 and 2014, respectively.

By far the largest portion of the Goleta Sanitary District's net position, \$76,917,588 (84 percent) and \$78,998,076 (85 percent) as of June 30, 2015 and 2014, 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, 2015</u> | <u>June 30, 2014</u> | <u>June 30, 2013<sup>1</sup></u> |
|--------------------------------|----------------------|----------------------|----------------------------------|
| Current Assets                 | \$ 12,704,614        | \$ 11,311,310        | \$ 9,968,639                     |
| Noncurrent Assets              | <u>82,243,896</u>    | <u>82,457,620</u>    | <u>83,497,738</u>                |
| Total Assets                   | <u>\$ 94,948,510</u> | <u>\$ 93,768,930</u> | <u>\$ 93,466,377</u>             |
| Deferred Inflows of Resources  | <u>\$ 398,231</u>    | <u>\$ -</u>          | <u>\$ -</u>                      |
| Current liabilities            | \$ 293,467           | \$ 493,119           | \$ 627,261                       |
| Noncurrent Liabilities         | <u>2,877,422</u>     | <u>434,061</u>       | <u>396,875</u>                   |
| Total Liabilities              | <u>\$ 3,170,909</u>  | <u>\$ 927,180</u>    | <u>\$ 1,024,136</u>              |
| Deferred Outflows of Resources | <u>\$ 800,200</u>    | <u>\$ -</u>          | <u>\$ -</u>                      |

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

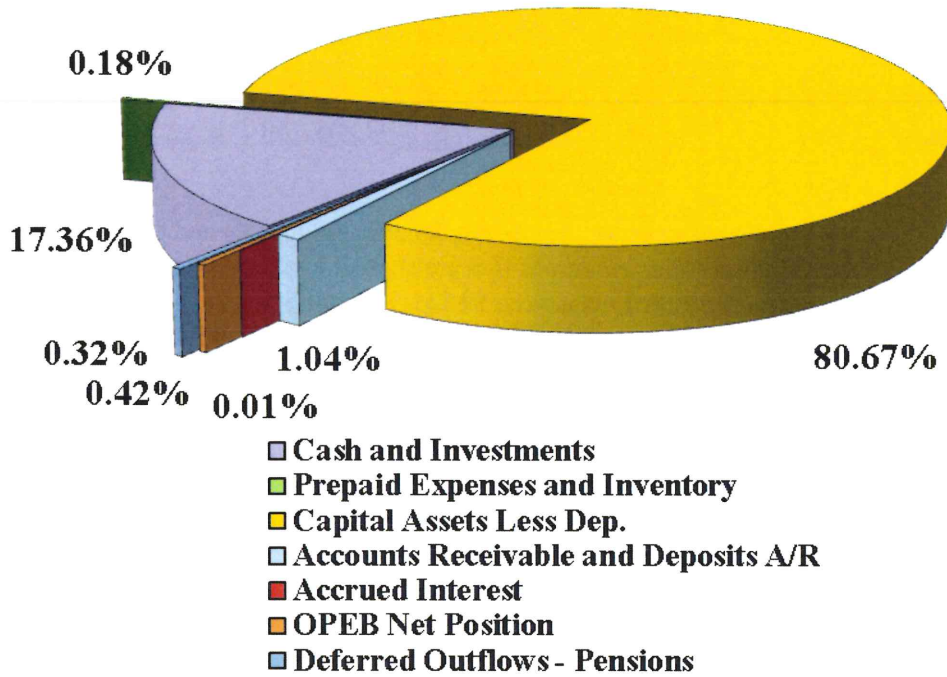
|                                  |                          |                          |                          |
|----------------------------------|--------------------------|--------------------------|--------------------------|
| Net Position:                    |                          |                          |                          |
| Net Investment in Capital Assets | \$ 76,917,588            | \$ 78,998,076            | \$ 82,133,852            |
| Restricted                       | 5,326,308                | 3,311,531                | 1,071,892                |
| Unrestricted                     | <u>9,131,736</u>         | <u>10,532,143</u>        | <u>9,236,497</u>         |
| <br>Total Net Position           | <br><u>\$ 91,375,632</u> | <br><u>\$ 92,841,750</u> | <br><u>\$ 92,442,241</u> |

An additional portion of the Goleta Sanitary District's net position, \$5,326,308 (5.8%) and \$3,311,531 (3.6%) as of June 30, 2015 and 2014, respectively, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$9,131,736 and \$10,532,143 as of June 30, 2015 and 2014, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

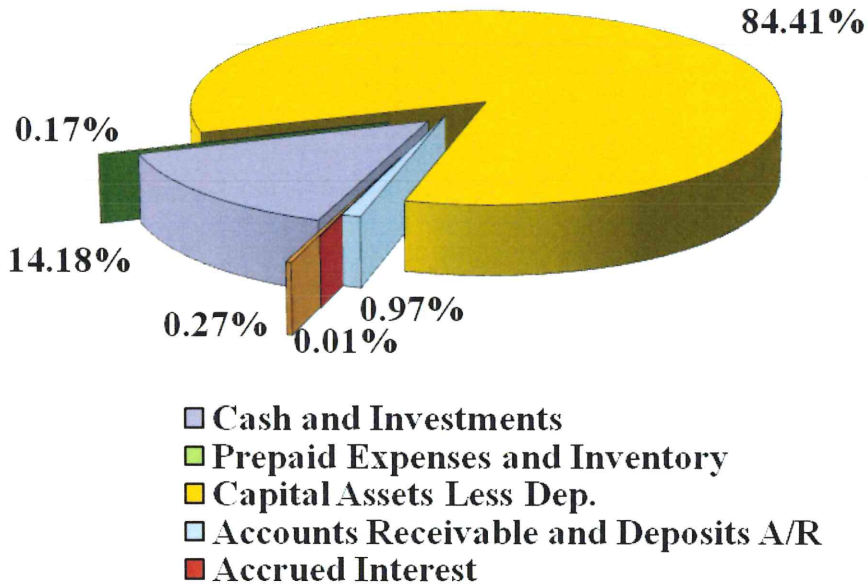
At the end of the current fiscal year, the Goleta Sanitary District is able to report positive balances in all three categories of net position. The same situation held true for the prior two fiscal years.

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

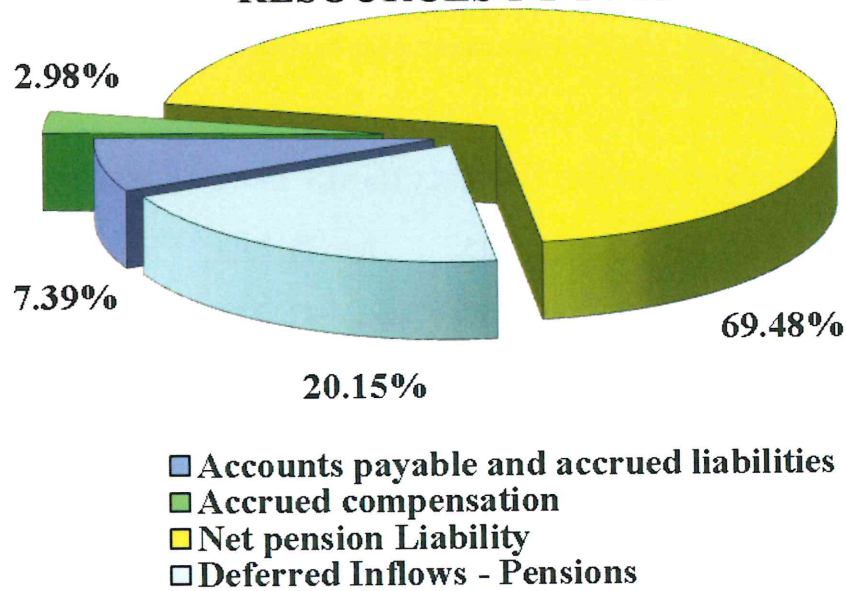
## ASSETS AND DEFERRED OUTFLOWS OF RESOURCES FY 14-15



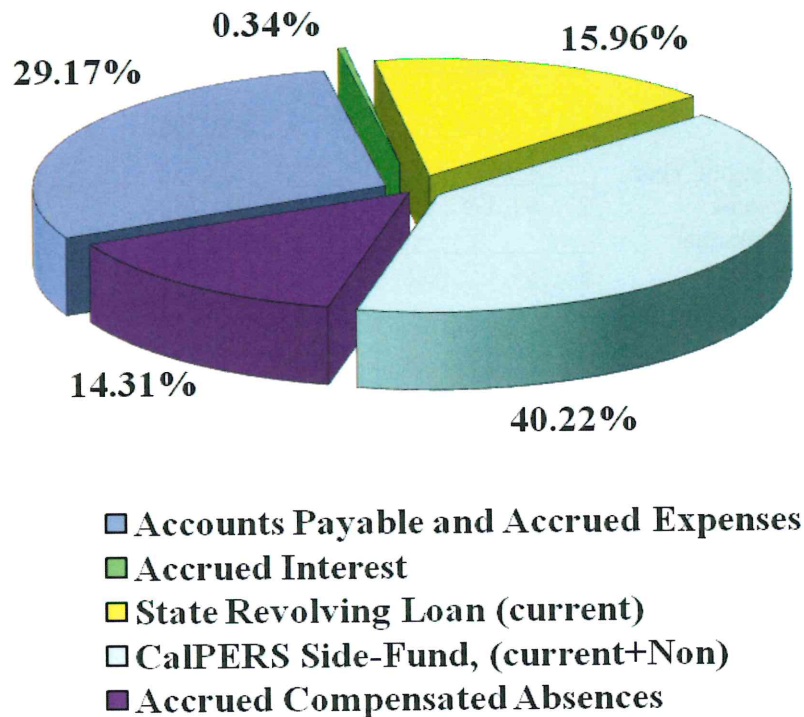
## ASSETS FY 13-14



## LIABILITIES AND DEFERRED INFLOWS OF RESOURCES FY 14-15



## LIABILITIES FY 13-14



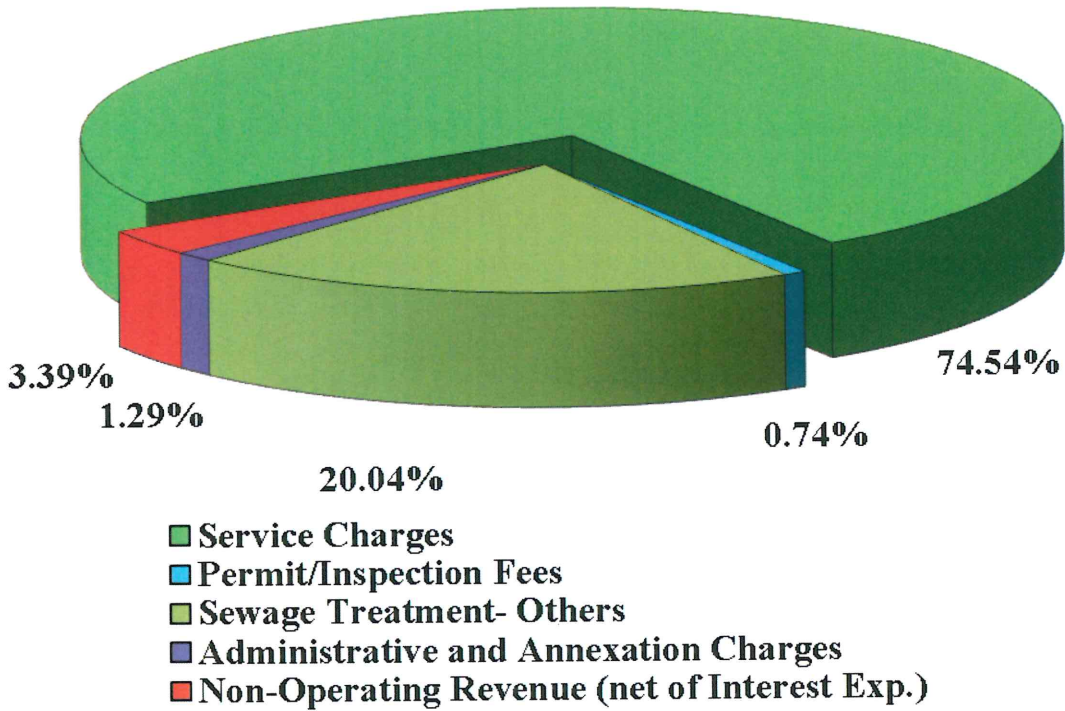
**Business-type activities.** The business-type activities increased the Goleta Sanitary District's net position by \$1,396,315 and \$813,398 as of June 30, 2015 and 2014, respectively. The Key elements are as follows: Operating and non-operating revenues exceeded operating and non-operating expenses by \$880,942 as of June 30, 2015 whereas operating and non-operating expenses exceeded operating and non-operating revenues by \$423,916 as of June 30, 2014. Capital contributions to the District's system totaled \$515,373 and \$1,237,314 as of June 30, 2015 and 2014, respectively as of June 30, 2015, this is a net decrease of \$721,941 in Capital contributions and there was a net decrease of \$2,721,711 as of June 30, 2014. The total revenues exceeded expenses during the 2014-2015 fiscal year. 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

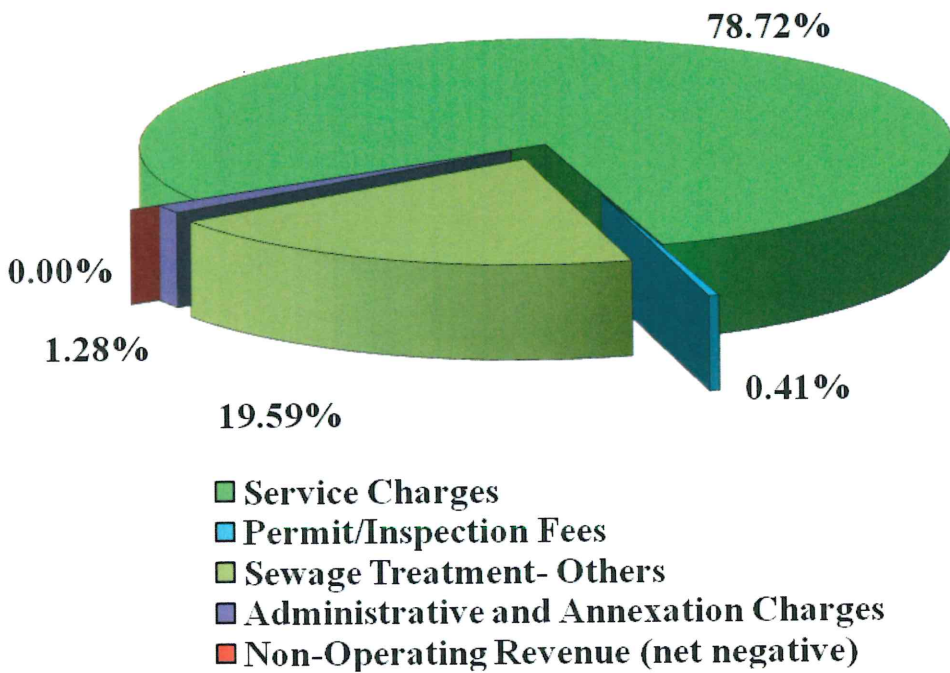
|   | <u>June 30, 2015</u> | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|---|----------------------|----------------------|----------------------|
| <b>Revenues:</b>                        |                      |                      |                      |
| Service Charges                         | \$ 8,351,344         | \$ 8,215,356         | \$ 8,235,493         |
| Other Operating                         | 2,472,384            | 2,220,618            | 1,955,457            |
| Capital Contributions                   | 515,373              | 1,237,314            | 3,959,025            |
| Non-operating                           | 380,321              | (1,981,477)          | 506,935              |
| <b>Total Revenues</b>                   | <b>\$ 11,719,422</b> | <b>\$ 9,691,811</b>  | <b>\$ 14,656,910</b> |
| <b>Expenses:</b>                        |                      |                      |                      |
| Sewer Collection                        | \$ 1,778,727         | \$ 1,761,739         | \$ 1,755,450         |
| Sewage Treatment                        | 6,387,424            | 5,322,160            | 4,611,198            |
| Plant Pump Station                      | 153,283              | 146,754              | 140,983              |
| Sewage Disposal                         | 114,877              | 116,167              | 114,896              |
| Administrative                          | 1,178,918            | 793,601              | 1,165,984            |
| Wastewater Reclamation                  | 708,842              | 732,840              | 655,029              |
| Non-operating                           | 1,036                | 5,152                | 9,156                |
| <b>Total Expenses</b>                   | <b>\$ 10,323,107</b> | <b>\$ 8,878,413</b>  | <b>\$ 8,452,696</b>  |
| <b>Increase in Net Position</b>         | <b>\$ 1,396,315</b>  | <b>\$ 813,398</b>    | <b>\$ 6,204,214</b>  |
| <b>Net Position – Beginning of Year</b> | <b>89,979,317</b>    | <b>92,028,352</b>    | <b>86,238,027</b>    |
| Net before adjustment                   | \$ 91,375,632        | \$ 92,841,750        | \$ 92,442,241        |
| Prior Period Adjustments <sup>2</sup>   | 0                    | -2,862,433           | -413,889             |
| <b>Net Position – End of Year</b>       | <b>\$ 91,375,632</b> | <b>\$ 89,979,317</b> | <b>\$ 92,028,352</b> |

<sup>2</sup> The Net Position was adjusted last year with a prior period adjustment for the CalPERS side-fund liability. This year as a result of the GASB 68 report from CalPERS, another prior period adjustment is required to reflect pension liabilities under the new reporting requirements of GASB 68.

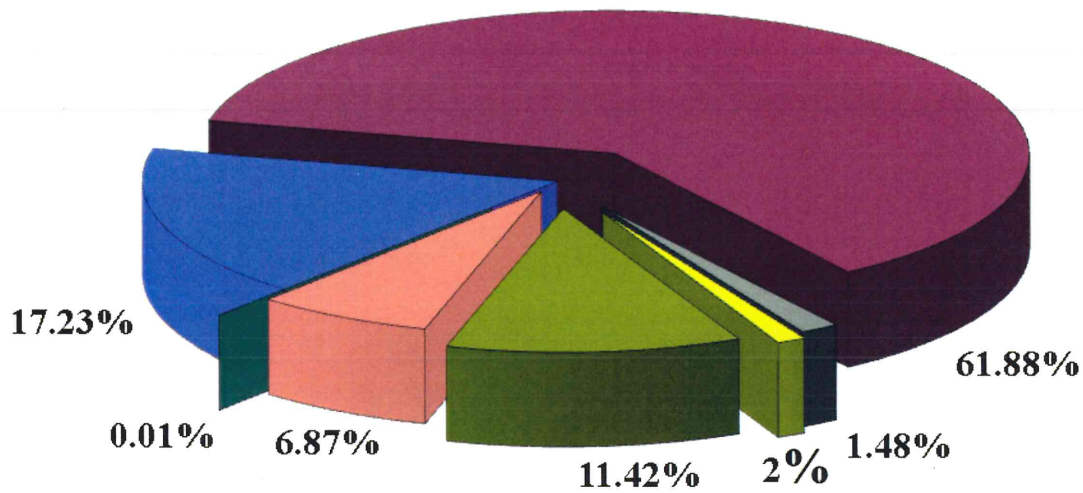
## REVENUES FY 14-15



## REVENUES FY 13-14

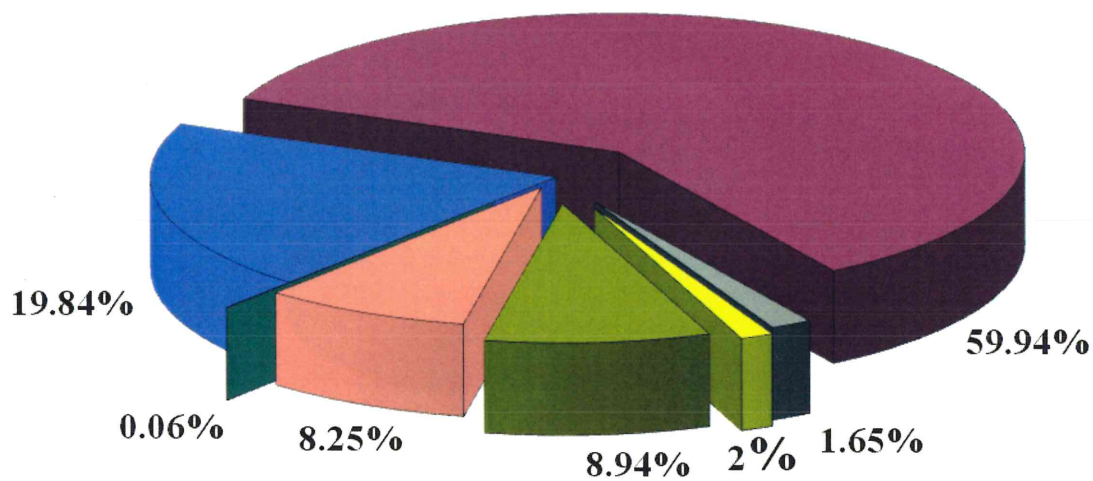


## EXPENSES FY 14-15



- |   |  |
|---|--|
| <span style="color: blue;">■</span> Sewage Collection           | <span style="color: maroon;">■</span> Sewage Treatment |
| <span style="color: gray;">■</span> Plant Pump Station          | <span style="color: yellow;">■</span> Sewage Disposal  |
| <span style="color: green;">■</span> Administrative and General | <span style="color: orange;">■</span> Reclamation      |
| <span style="color: teal;">■</span> Non-operating Expenses      |  |

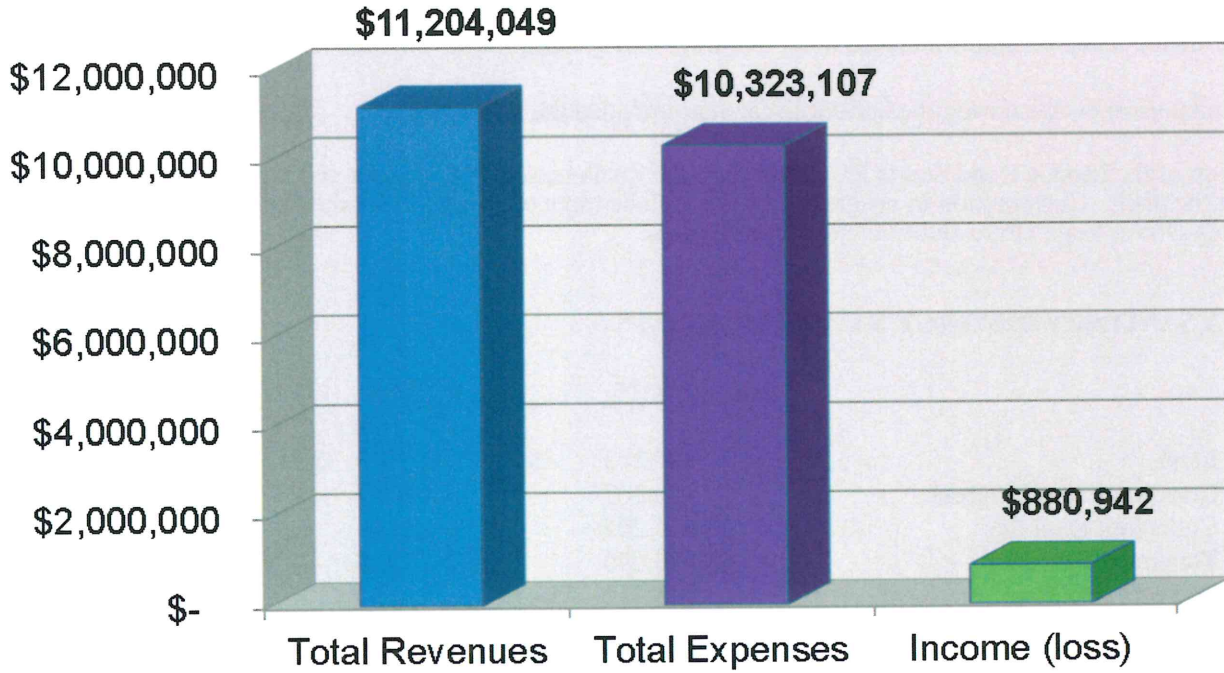
## EXPENSES FY 13-14



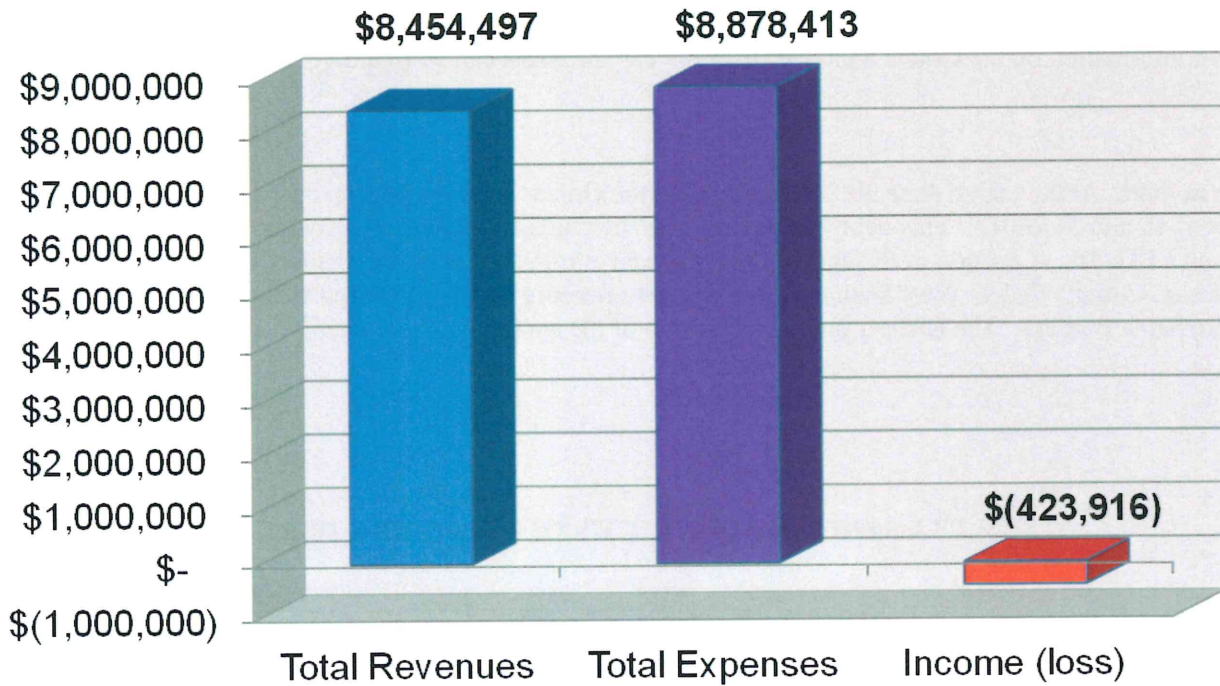
- |   |  |
|---|--|
| <span style="color: blue;">■</span> Sewage Collection           | <span style="color: maroon;">■</span> Sewage Treatment |
| <span style="color: gray;">■</span> Plant Pump Station          | <span style="color: yellow;">■</span> Sewage Disposal  |
| <span style="color: green;">■</span> Administrative and General | <span style="color: orange;">■</span> Reclamation      |
| <span style="color: teal;">■</span> Non-operating Expenses      |  |



## REVENUES AND EXPENSES FY 14-15



## REVENUES AND EXPENSES FY 13-14



## 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, 2015 and June 30, 2014 amounts to \$76,917,588 and \$79,146,089 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment.

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

Completion of the Modoc Road Sewer Rehabilitation, the Reclamation PLC project and the Hoffman Blower project at the plant. Construction in progress projects include three ongoing job for the Collections department - La Ramada Drive, Vega Drive and Cathedral Oaks bypass.

### GOLETA SANITARY DISTRICT'S CAPITAL ASSETS

|                               | <u>June 30, 2015</u>   | <u>June 30, 2014</u>   | <u>June 30, 2013</u>   |
|-------------------------------|------------------------|------------------------|------------------------|
| Land                          | \$ 327,243             | \$ 327,243             | \$ 327,243             |
| Construction in Progress      | 302,207                | 150,347                | 39,542,386             |
| Collection Facilities         | 23,025,225             | 22,529,343             | 22,623,427             |
| Treatment Facilities          | 68,086,640             | 67,848,328             | 33,928,059             |
| Disposal Facilities           | 3,743,731              | 3,743,731              | 3,743,731              |
| Admin Facilities              | 2,993,230              | 2,964,049              | 2,989,644              |
| Wastewater Reclamation        | <u>15,083,847</u>      | <u>14,966,485</u>      | <u>14,963,398</u>      |
| Total                         | <u>\$ 113,562,123</u>  | <u>\$ 112,529,526</u>  | <u>\$ 118,117,888</u>  |
| Less Accumulated Depreciation | <u>\$ (36,644,535)</u> | <u>\$ (33,383,437)</u> | <u>\$ (35,692,042)</u> |
| Net Capital Assets            | <u>\$ 76,917,588</u>   | <u>\$ 79,146,089</u>   | <u>\$ 82,425,846</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, 2015 and 2014, the Goleta Sanitary District had a total current and long-term debt of \$0 and \$148,013. This debt was incurred for the Outfall Reballasting project. The term of this loan ran 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 funded its portion of the annual payment from sewer service charges.

### GOLETA SANITARY DISTRICT'S OUTSTANDING DEBT

|                           | <u>2015</u> | <u>2014</u>       | <u>2013</u>       |
|---------------------------|-------------|-------------------|-------------------|
| State Revolving Fund Loan | \$ 0        | \$ 148,013        | \$ 291,994        |
| Total                     | <u>\$ 0</u> | <u>\$ 148,013</u> | <u>\$ 291,994</u> |

The Goleta Sanitary District's total debt decreased by \$148,013 (100%), \$143,981 (49.3%), \$140,060 (32.4%), during June 30, 2015, 2014 and 2013, 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 2014-2015 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 2014-15. 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 2014-15 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 \$ 186,049 for FY14-15 and one of \$179,110 for FY13-14. The District paid \$144,880 to CERBT, towards the annual liability and paid a sum of \$95,766 to the retirees as reimbursement and directly to CalPERS for the Retiree health insurance coverage. A total of \$240,646 is credited towards the ARC for fiscal 2014-15.

The Actuarial Report noted that the total Unfunded Actuarial Accrued liability as of July 1, 2013 was \$1,288,176 as defined by the actuarial analysis dated April 1, 2014. The payments above the required contribution (ARC) level bring this liability lower.

### **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, 2015  
With Comparative Totals for June 30, 2014

|   | <u>2015</u>          | <u>2014</u>          |
|---|----------------------|----------------------|
| <b>Assets</b>                               |                      |                      |
| Current:                                    |                      |                      |
| Cash and investments                        | \$ 11,536,576        | \$ 10,238,633        |
| Receivables:                                |                      |                      |
| Accounts                                    | 992,590              | 905,650              |
| Accrued interest                            | 6,950                | 4,864                |
| Inventories                                 | 117,479              | 105,671              |
| Prepaid expenses                            | 51,019               | 56,492               |
| <b>Total Current Assets</b>                 | <u>12,704,614</u>    | <u>11,311,310</u>    |
| Noncurrent:                                 |                      |                      |
| Restricted:                                 |                      |                      |
| Cash and investments                        | 5,019,198            | 3,053,664            |
| Accrued interest receivable                 | 3,146                | 1,502                |
| Net OPEB Asset                              | 303,964              | 256,365              |
| Capital assets - net                        | 76,917,588           | 79,146,089           |
| <b>Total Noncurrent Assets</b>              | <u>82,243,896</u>    | <u>82,457,620</u>    |
| <b>Total Assets</b>                         | <u>94,948,510</u>    | <u>93,768,930</u>    |
| <b>Deferred Outflows of Resources</b>       |                      |                      |
| Deferred pensions                           | 398,231              |                      |
| <b>Total Deferred Outflows of Resources</b> | <u>398,231</u>       |                      |
| <b>Liabilities</b>                          |                      |                      |
| Current:                                    |                      |                      |
| Accounts payable and accrued liabilities    | 293,467              | 270,474              |
| Accrued interest                            |                      | 3,108                |
| Loan payable, current portion               |                      | 148,013              |
| CalPERS Side-Fund, current portion          |                      | 71,524               |
| <b>Total Current Liabilities</b>            | <u>293,467</u>       | <u>493,119</u>       |
| Noncurrent:                                 |                      |                      |
| Accrued compensation                        | 118,232              | 132,652              |
| CalPERS Side-Fund                           |                      | 301,409              |
| Net pension liability                       | 2,759,210            |                      |
| <b>Total Noncurrent Liabilities</b>         | <u>2,877,442</u>     | <u>434,061</u>       |
| <b>Total Liabilities</b>                    | <u>3,170,909</u>     | <u>927,180</u>       |
| <b>Deferred Inflows of Resources</b>        |                      |                      |
| Deferred pensions                           | 800,200              |                      |
| <b>Total Deferred Inflows of Resources</b>  | <u>800,200</u>       |                      |
| <b>Net Position</b>                         |                      |                      |
| Net investment in capital assets            | 76,917,588           | 78,998,076           |
| Restricted                                  | 5,326,308            | 3,311,531            |
| Unrestricted                                | 9,131,736            | 10,532,143           |
| <b>Total Net Position</b>                   | <u>\$ 91,375,632</u> | <u>\$ 92,841,750</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, 2015  
With Comparative Totals for the Fiscal Year Ended June 30, 2014

|   | <u>2015</u>          | <u>2014</u>          |
|---|----------------------|----------------------|
| <b>Operating Revenues:</b>                        |                      |                      |
| Service charges                                   | \$ 8,351,344         | \$ 8,215,356         |
| Permit and inspection fees                        | 82,568               | 42,293               |
| Sewage treatment-other agencies                   | 2,245,637            | 2,044,834            |
| Administrative charges                            | 144,179              | 133,491              |
|   | <u>10,823,728</u>    | <u>10,435,974</u>    |
| <b>Operating Expenses:</b>                        |                      |                      |
| Sewage collection                                 | 1,778,727            | 1,761,739            |
| Sewage treatment                                  | 6,387,424            | 5,322,160            |
| Plant pump station                                | 153,283              | 146,754              |
| Sewage disposal                                   | 114,877              | 116,167              |
| Administrative and general                        | 1,178,918            | 793,601              |
| Wastewater reclamation                            | 708,842              | 732,840              |
|   | <u>10,322,071</u>    | <u>8,873,261</u>     |
| Total operating expenses                          |                      |                      |
|   | <u>10,322,071</u>    | <u>8,873,261</u>     |
| Operating income (loss)                           | <u>501,657</u>       | <u>1,562,713</u>     |
| <b>Nonoperating Revenues (Expenses):</b>          |                      |                      |
| Property tax                                      | 133,488              | 128,015              |
| Intergovernmental                                 | 508                  | 804                  |
| Investment earnings                               | 35,558               | 18,873               |
| Interest expense                                  | (1,036)              | (5,152)              |
| Annexation charges                                | 44,952               | 91,116               |
| Reimbursements from participating agencies        | 68,493               | 73,344               |
| Other   | 97,322               | 91,913               |
| Gain (loss) on disposal of capital assets         |                      | (2,385,542)          |
|   | <u>379,285</u>       | <u>(1,986,629)</u>   |
| Total nonoperating revenues (expenses)            |                      |                      |
|   | <u>379,285</u>       | <u>(1,986,629)</u>   |
| Income (loss) before capital contributions        | 880,942              | (423,916)            |
| Capital contributions                             | 515,373              | 1,237,314            |
|   | <u>1,396,315</u>     | <u>813,398</u>       |
| Change in net position                            |                      |                      |
|   | <u>1,396,315</u>     | <u>813,398</u>       |
| Net position, beginning of fiscal year            | 92,841,750           | 92,442,241           |
| Prior period adjustment                           | (2,862,433)          | (413,889)            |
| Net position, beginning of fiscal year - restated | <u>89,979,317</u>    | <u>92,028,352</u>    |
| Net position, end of fiscal year                  | <u>\$ 91,375,632</u> | <u>\$ 92,841,750</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, 2015  
With Comparative Totals for the Fiscal Year Ended June 30, 2014

|   | <u>2015</u>          | <u>2014</u>          |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                      |                      |
| Receipts from customers   | \$ 10,736,788        | \$ 10,750,778        |
| Payments to suppliers   | (2,736,768)          | (2,800,730)          |
| Payments to employees   | (4,443,753)          | (4,081,876)          |
|   | <u>3,556,267</u>     | <u>3,868,172</u>     |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                      |                      |
| Property taxes  | 133,488              | 128,015              |
| Intergovernmental   | 508                  | 804                  |
| Reimbursements from other governments                           | 68,493               | 73,344               |
| Annexation charges  | 44,952               | 91,116               |
| Other revenue   | 97,322               | 91,913               |
|   | <u>344,763</u>       | <u>385,192</u>       |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                      |                      |
| Capital contributions   | 515,373              | 1,237,314            |
| Acquisition and construction of capital assets                  | (1,032,597)          | (1,718,281)          |
| Principal paid on long-term debt                                | (148,013)            | (143,981)            |
| Interest paid on long-term debt                                 | (4,144)              | (8,176)              |
| Proceeds from sales of capital assets                           |                      | 1,000                |
|   | <u>(669,381)</u>     | <u>(632,124)</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                      |                      |
| Interest received   | 31,828               | 17,514               |
|   | <u>31,828</u>        | <u>17,514</u>        |
| Net (decrease) in cash and cash equivalents                     | 3,263,477            | 3,638,754            |
| Cash and cash equivalents, July 1                               | <u>13,292,297</u>    | <u>9,653,543</u>     |
| Cash and cash equivalents, June 30                              | <u>\$ 16,555,774</u> | <u>\$ 13,292,297</u> |
| Reconciliation to Statement of Net Position:                    |                      |                      |
| Cash and investments - cash equivalents                         | \$ 11,536,576        | \$ 10,238,633        |
| Restricted cash and investments - cash equivalents              | 5,019,198            | 3,053,664            |
|   | <u>\$ 16,555,774</u> | <u>\$ 13,292,297</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, 2015  
With Comparative Totals for the Fiscal Year Ended June 30, 2014

|   | <u>2015</u>         | <u>2014</u>         |
|---|---------------------|---------------------|
| <b>Reconciliation to reconcile operating income (loss) to net cash provided (used) by operating activities:</b> |                     |                     |
| Operating income (loss)   | \$ 501,657          | \$ 1,562,713        |
| Adjustments to reconcile operating loss to net cash provided by operating activities:                           |                     |                     |
| Depreciation  | 3,261,098           | 2,611,496           |
| Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:               |                     |                     |
| Accounts receivable   | (86,940)            | 314,804             |
| Inventory   | (11,808)            | (7,502)             |
| Prepaid expenses  | 5,473               | 6,866               |
| Deferred outflows   | (48,811)            |                     |
| Accounts payables   | 22,993              | (206,674)           |
| Net OPEB obligation   | (47,599)            | (359,188)           |
| CalPERS Side-Fund   |                     | (40,956)            |
| Compensated absences  | (14,420)            | (13,387)            |
| Net pension liability   | (825,576)           |                     |
| Deferred inflows  | 800,200             |                     |
|   | <u>3,556,267</u>    | <u>3,868,172</u>    |
| Net cash provided by operating activities   | <u>\$ 3,556,267</u> | <u>\$ 3,868,172</u> |

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<br/>in Plant</u> | <u>Capacity Rights In<br/>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, 2015, 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, 2015 and 2014 was \$118,232 and \$132,652, 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, 2015 and 2014, the District received \$133,488 and \$128,015, 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. Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Goleta Sanitary District's California Public Employee's Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**O. Deferred Outflows and Inflows of Resources**

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

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

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

**P. Net Position**

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

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

**Q. New Accounting Pronouncements**

Governmental Accounting Standards Board Statement No. 68

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions*." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of GASB Statement No. 27, "*Accounting for Pensions by State and Local Governmental Employers*" as well as the requirements of GASB Statement No. 50, "*Pension Disclosures*." This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. Implementation of the GASB Statement No. 68 and the impact on the District's financial statements are explained in Note 8- Pension Plans and Note 12-Prior Period Adjustment.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Q. New Accounting Pronouncements (Continued)**

Governmental Accounting Standards Board Statement No. 71

For the fiscal year ended June 30, 2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." This Statement is effective for periods beginning after June 15, 2014. The objective of this Statement is to address an issue regarding application of the transition of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions." The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement will eliminate the source of potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. Implementation of the GASB Statement No. 71 and the impact on the District's financial statements are explained in Note 8- Pension Plans and Note 12-Prior Period Adjustment.

**R. 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, 2015 are classified in the accompanying financial statements as follows:

|                                      | 2015                 | 2014                 |
|--------------------------------------|----------------------|----------------------|
| Cash on hand                         | \$ 338               | \$ 564               |
| Deposits with financial institutions | 1,056,942            | 529,021              |
| Investments                          | 15,498,494           | 12,762,712           |
|                                      | <u>\$ 16,555,774</u> | <u>\$ 13,292,297</u> |

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

|                                 | 2015                 | 2014                 |
|---------------------------------|----------------------|----------------------|
| Cash and investments            | \$ 11,536,576        | \$ 10,238,633        |
| Restricted cash and investments | 5,019,198            | 3,053,664            |
| Total cash and investments      | <u>\$ 16,555,774</u> | <u>\$ 13,292,297</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)

| <u>Authorized<br/>Investment Type</u>                  | <u>Maximum<br/>Maturity</u> | <u>Maximum<br/>Percentage<br/>Of Portfolio</u> | <u>Maximum<br/>Investment<br/>in One Issuer</u> |
|--|-----------------------------|--|---|
| 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<br>Bonds           | N/A                         | None   | None  |
| Notes and Bonds for other Local<br>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:

| <u>Investment Type</u>       | <u>Carrying<br/>Amount</u> | 2015                                  |                         |                         |                                |
|------------------------------|----------------------------|---------------------------------------|-------------------------|-------------------------|--------------------------------|
|                              |                            | <u>Remaining Maturity (in Months)</u> |                         |                         |                                |
|                              |                            | <u>12 Months<br/>Or Less</u>          | <u>13-24<br/>Months</u> | <u>25-60<br/>Months</u> | <u>More than<br/>60 Months</u> |
| State investment pool (LAIF) | \$ 15,498,494              | \$ 15,498,494                         | \$ -                    | \$ -                    | \$ -                           |
|                              | <u>\$ 15,498,494</u>       | <u>\$ 15,498,494</u>                  | <u>\$ -</u>             | <u>\$ -</u>             | <u>\$ -</u>                    |
| <u>Investment Type</u>       | <u>Carrying<br/>Amount</u> | 2014                                  |                         |                         |                                |
|                              |                            | <u>Remaining Maturity (in Months)</u> |                         |                         |                                |
|                              |                            | <u>12 Months<br/>Or Less</u>          | <u>13-24<br/>Months</u> | <u>25-60<br/>Months</u> | <u>More than<br/>60 Months</u> |
| State investment pool (LAIF) | \$ 12,762,712              | \$ 12,762,712                         | \$ -                    | \$ -                    | \$ -                           |
|                              | <u>\$ 12,762,712</u>       | <u>\$ 12,762,712</u>                  | <u>\$ -</u>             | <u>\$ -</u>             | <u>\$ -</u>                    |

GOLETA SANITARY DISTRICT  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2015

**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 | 2015                         |             |             |                      |
|------------------------------|----------------------|----------------------|------------------------------|-------------|-------------|----------------------|
|                              |                      |                      | Rating as of Fiscal Year End |             |             | Not Rated            |
|                              |                      |                      | AAA                          | A+          | Baa         |                      |
| State investment pool (LAIF) | \$ 15,498,494        | N/A                  | \$ -                         | \$ -        | \$ -        | \$ 15,498,494        |
|                              | <u>\$ 15,498,494</u> |                      | <u>\$ -</u>                  | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 15,498,494</u> |

| 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> |

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 up to \$250,000.

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

Investment in State Investment Pool

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

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

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

**GOLETA SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2015 and June 30, 2014 was as follows:

|   | Balance<br>July 1, 2014 | Additions             | Deletions             | Transfers              | Balance<br>June 30, 2015 |
|---|-------------------------|-----------------------|-----------------------|------------------------|--------------------------|
| Capital assets not being depreciated:       |                         |                       |                       |                        |                          |
| Land  | \$ 327,243              | \$ -                  | \$ -                  | \$ -                   | \$ 327,243               |
| Construction in progress                    | 150,347                 | 743,987               |                       | (592,127)              | 302,207                  |
| Total capital assets not being depreciated  | <u>\$ 477,590</u>       | <u>\$ 743,987</u>     | <u>\$ -</u>           | <u>\$ (592,127)</u>    | <u>\$ 629,450</u>        |
| Capital assets being depreciated:           |                         |                       |                       |                        |                          |
| Collection facilities                       | \$ 22,529,343           | \$ 61,840             | \$ -                  | \$ 434,042             | \$ 23,025,225            |
| Treatment facilities                        | 67,848,328              | 160,185               |                       | 78,127                 | 68,086,640               |
| Disposal facilities                         | 3,743,731               |                       |                       |                        | 3,743,731                |
| General administrative facilities           | 2,964,049               | 29,181                |                       |                        | 2,993,230                |
| Wastewater reclamation facility             | 14,966,485              | 37,404                |                       | 79,958                 | 15,083,847               |
|   | <u>112,051,936</u>      | <u>288,610</u>        |                       | <u>592,127</u>         | <u>112,932,673</u>       |
| Less accumulated depreciation               | <u>33,383,437</u>       | <u>3,261,098</u>      |                       |                        | <u>36,644,535</u>        |
| Total capital assets being depreciated, net | <u>\$ 78,668,499</u>    | <u>\$ (2,972,488)</u> | <u>\$ -</u>           | <u>\$ 592,127</u>      | <u>\$ 76,288,138</u>     |
| Net capital assets                          | <u>\$ 79,146,089</u>    | <u>\$ (2,228,501)</u> | <u>\$ -</u>           | <u>\$ -</u>            | <u>\$ 76,917,588</u>     |
|   |                         |                       |                       |                        |                          |
|   | Balance<br>July 1, 2013 | Additions             | Deletions             | Transfers              | Balance<br>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>     |

**GOLETA SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 5 – LONG-TERM LIABILITIES**

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2015 and June 30, 2014:

|                                    | Balance<br>July 1, 2014 | Additions           | Retirements         | Prior-Period<br>Adjustment | Balance<br>June 30, 2015 | Due Within<br>One Year |
|------------------------------------|-------------------------|---------------------|---------------------|----------------------------|--------------------------|------------------------|
| State revolving fund loan          | \$ 148,013              | \$ -                | \$ 148,013          | \$ -                       | \$ -                     | \$ -                   |
| Compensated absences               | 132,652                 | 172,944             | 187,364             |                            | 118,232                  |                        |
| Net pension liability              | 372,933                 | 1,375,459           | 2,201,035           | 3,211,853                  | 2,759,210                |                        |
| <b>Total long-term liabilities</b> | <b>\$ 653,598</b>       | <b>\$ 1,548,403</b> | <b>\$ 2,536,412</b> | <b>\$ 3,211,853</b>        | <b>\$ 2,877,442</b>      | <b>\$ -</b>            |

|                                    | Balance<br>July 1, 2013 | Additions         | Retirements       | Prior-Period<br>Adjustment | Balance<br>June 30, 2014 | Due Within<br>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                 |
| <b>Total long-term liabilities</b> | <b>\$ 540,856</b>       | <b>\$ 236,886</b> | <b>\$ 538,033</b> | <b>\$ 413,889</b>          | <b>\$ 653,598</b>        | <b>\$ 215,505</b>      |

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 loan was paid in full during the fiscal year.

**NOTE 6 – NET POSITION**

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

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

The following is included in Restricted Net Position:

Reserve for Plant Capacity Expansion

This reserve is related to that portion of the District’s net position attributable to capacity expansion connection fees. Such fees can only be used for plant expansion. At June 30, 2015 and 2014, this reserve was \$5,022,344 and \$3,055,166, respectively.

**NOTE 7 – RISK MANAGEMENT**

The District is a member of the California Sanitation Risk Management Authority (“Authority”). The following disclosures are made in compliance with GASB Code Section J50.103:

**A. Description of Joint Powers Authority**

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

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



**NOTE 7 – RISK MANAGEMENT (Continued)**

**B. Self-Insurance Programs of the Authority**

*General Liability Insurance*

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

*Workers Compensation Insurance*

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

*Property Protection*

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

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

**NOTE 8 – PENSION PLAN**

**A. General Information about the Pension Plans**

*Plan Descriptions*

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

*Benefits Provided*

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

**NOTE 8 – PENSION PLAN (Continued)**

**A. General Information about the Pension Plans (Continued)**

*Benefits Provided(Continued)*

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

|   | Miscellaneous               |                                |
|---|-----------------------------|--------------------------------|
|   | Prior to<br>January 1, 2013 | On or after<br>January 1, 2013 |
| Hire Date   |                             |                                |
| Benefit formula                                   | 2.0% @ 55                   | 2% @ 62                        |
| Benefit vesting schedule                          | 5 years service             | 5 years service                |
| Benefit payments                                  | monthly for life            | monthly for life               |
| Retirement age                                    | 50                          | 52-67                          |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.7%                | 1.0% to 2.5%                   |
| Required employee contribution rates              | 7%                          | 7%                             |
| Required employer contribution rates              | 15.417%                     | N/A                            |

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the District were \$398,231 for the fiscal year ended June 30, 2015.

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

At June 30, 2015, the District reported a liability of \$2,759,210 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2014, the District's proportion was 0.04434%, which was unchanged from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$324,044. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows of<br>Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience  | \$ -                              | \$ -                             |
| Changes in assumptions  | -                                 | -                                |
| Net difference between projected and actual earnings on retirement plan investments                           | -                                 | 779,859                          |
| Changes in proportion and differences between District contributions and proportionate share of contributions | -                                 | 20,341                           |
| District contributions subsequent to the measurement date   | 398,231                           | -                                |
|   | <u>\$ 398,231</u>                 | <u>\$ 800,200</u>                |

**NOTE 8 – PENSION PLAN (Continued)**

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

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

\$398,231 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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

| Fiscal Year Ending June 30, | <u>Amount</u>       |
|-----------------------------|---------------------|
| 2016                        | \$ (202,229)        |
| 2017                        | (202,229)           |
| 2018                        | (200,778)           |
| 2019                        | <u>(194,964)</u>    |
|                             | <u>\$ (800,200)</u> |

*Actuarial Assumptions*

The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

|                                     |  |
|-------------------------------------|--|
| Valuation Date                      | <u>Miscellaneous</u><br>June 30, 2013  |
| Measurement Date                    | June 30, 2014  |
| Actuarial Cost Method               | Entry-Age Normal Cost Method   |
| Actuarial Assumptions:              |  |
| Discount Rate                       | 7.50%  |
| Inflation                           | 2.75%  |
| Salary Increases                    | Varies by Entry Age and Service  |
| Investment Rate of Return           | 7.5% Net Pension Plan Investment<br>and Administrative Expenses;<br>includes Inflation   |
| Mortality                           | Derived using CalPERS' Membership<br>Data for all Funds (1)  |
| Post Retirement Benefit<br>Increase | Contract COLA up to 2.75% until<br>Purchasing Power Protection Allowance<br>Floor on Purchasing Power applies;<br>2.75% thereafter |

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

*Discount Rate*

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

NOTE 8 – PENSION PLAN (Continued)

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

*Discount Rate (Continued)*

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly high Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

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

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

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

| Asset Class                   | New<br>Strategic<br>Allocation | Real Return<br>Years 1-10(a) | Real Return<br>Years 11+(b) |
|-------------------------------|--------------------------------|------------------------------|-----------------------------|
| Global Equity                 | 47.0%                          | 5.25%                        | 5.71%                       |
| Global Fixed Income           | 19.0%                          | 0.99%                        | 2.43%                       |
| Inflation Sensitive           | 6.0%                           | 0.45%                        | 3.36%                       |
| Private Equity                | 12.0%                          | 6.83%                        | 6.95%                       |
| Real Estate                   | 11.0%                          | 4.50%                        | 5.13%                       |
| Infrastructure and Forestland | 3.0%                           | 4.50%                        | 5.09%                       |
| Liquidity                     | 2.0%                           | -0.55%                       | -1.05%                      |
| Total                         | 100%                           |                              |                             |

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

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

**NOTE 8 – PENSION PLAN (Continued)**

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

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

The following represents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1- percentage point higher (8.5 percent) than the current rate:

|  | 1% Decrease<br>6.50% | Discount Rate<br>7.50% | 1% Increase<br>8.50% |
|--|----------------------|------------------------|----------------------|
| District's proportionate share of the net pension plan liability | \$ 4,631,447         | \$ 2,759,210           | \$ 1,205,431         |

*Pension Plan Fiduciary Net Position*

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

**C. Payable to Pension Plan**

At June 30, 2015, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2015.

**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](http://www.calpers.ca.gov).

**B. Funding Policy**

In 2009, the District joined the CalPERS medical program. In 2015, the District contributed the full cost of retiree and spousal coverage, up to the cost of PERS Choice coverage in comparison to the “unequal contribution” approach that was used at the inception of the CalPERS medical program. The District’s contribution will be based on each retiree’s age and enrollment status. The contribution requirements of plan members and the District are established and may be amended by the District and the employee associations. Currently, contributions are not required from plan members.

**NOTE 9 – OTHER POST EMPLOYMENT BENEFITS (Continued)**

**B. Funding Policy (Continued)**

A contribution of \$240,646 was made during the 2014-2015 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 below:

|  | 2015                | 2014                |
|--|---------------------|---------------------|
| Annual required contribution (ARC)                     | \$ 186,049          | \$ 179,110          |
| Interest on net OPEB obligation                        | 13,955              | (332,247)           |
| Adjustment to ARC                                      | (6,957)             | (6,805)             |
| Annual OPEB cost                                       | 193,047             | (159,942)           |
| Contributions made                                     | (240,646)           | (199,246)           |
| (Decrease) increase in net OPEB obligation             | (47,599)            | (359,188)           |
| Net OPEB Obligation (asset) - Beginning of fiscal year | (256,365)           | 102,823             |
| Net OPEB Obligation (asset) - end of fiscal year       | <u>\$ (303,964)</u> | <u>\$ (256,365)</u> |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB (obligation) asset for 2014-2015 and the two preceding years were as follows:

| Fiscal Year<br>Ended | Annual OPEB<br>Cost | Actual<br>Contribution<br>(Net of<br>Adjustments) | Percentage of<br>Annual OPEB<br>Cost<br>Contributed | Net OPEB<br>Obligation<br>(Asset) |
|----------------------|---------------------|---|---|-----------------------------------|
| 6/30/2013            | \$ 237,238          | \$ 176,805  | 75%   | \$ 102,823                        |
| 6/30/2014            | \$ (159,942)        | \$ 199,246  | N/A   | \$ (256,365)                      |
| 6/30/2015            | \$ 193,047          | \$ 240,646  | N/A   | \$ (303,964)                      |

**C. Funded Status and Funding Progress**

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

The schedule of funding progress below presents multiyear 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, was 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.

**NOTE 12 – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment of \$(2,862,433) was made which affects the statement of net position. Prior period adjustment was to record net pension liability of \$(3,211,853) and deferred pension outflow of resources of \$349,420 due to the implementation of GASB Statements No. 68 and No. 71.



**REQUIRED SUPPLEMENTARY INFORMATION**

**GOLETA SANITARY DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS**  
**OTHER THAN PENSIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

**SCHEDULE OF FUNDING PROGRESS**

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets</u> | <u>Actuarial<br/>Accrued<br/>Liability</u> | <u>Unfunded<br/>Actuarial<br/>Accrued<br/>Liability<br/>(UAAL)</u> | <u>Funded<br/>Ratio</u> | <u>Covered<br/>Payroll</u> | <u>UAAL as a<br/>Percent of<br/>Covered<br/>Payroll</u> |
|---|--|--|--|-------------------------|----------------------------|---|
| 1/1/2010                                | \$ 272,130                               | \$2,773,266                                | \$ 2,501,136   | 10%                     | \$ 2,521,908               | 99%   |
| 7/1/2011                                | \$ 681,082                               | \$2,434,225                                | \$ 1,753,143   | 28%                     | \$ 2,610,175               | 67%   |
| 7/1/2013                                | \$1,056,765                              | \$2,344,941                                | \$ 1,288,176   | 45%                     | \$ 2,502,533               | 51%   |

**GOLETA SANITARY DISTRICT**  
**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**  
 Last 10 Years\*  
 As of June 30, 2015

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

|  | <u>2015</u>   |
|--|---------------|
| Proportion of the net pension liability  | 0.04434%      |
| Proportionate share of the net pension liability   | \$ 2,759,210  |
| Covered- employee payroll  | \$ 2,309,232  |
| Proportionate share of the net pension liability as percentage of covered-employee payroll | 119.49%       |
| Plan's total pension liability   | \$ 14,112,760 |
| Plan's fiduciary net position  | \$ 11,353,550 |
| Plan fiduciary net position as a percentage of the total pension liability                 | 80.45%        |

**Notes to Schedule:**

Changes in assumptions - In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

\*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**GOLETA SANITARY DISTRICT**  
**SCHEDULE OF CONTRIBUTIONS**  
 Last 10 Years\*  
 As of June 30, 2015

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

|  | <u>2015</u>      |
|--|------------------|
| Contractually required contribution (actuarially determined)         | \$ 349,420       |
| Contribution in relation to the actuarially determined contributions | <u>(349,420)</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>      |
| Covered- employee payroll  | \$ 2,378,509     |
| Contributions as a percentage of covered-employee payroll            | 14.69%           |

**Notes to Schedule**

|   |   |
|---|---|
| Valuation Date:   | 6/30/2013   |
| Methods and assumptions used to determine contribution rates: |   |
| Discount Rate   | 7.50%   |
| Inflation   | 2.75%   |
| Salary Increases  | Varies by Entry Age and Service   |
| Investment Rate of Return                                     | 7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation                                       |
| Mortality Rate Table (1)                                      | Derived using CalPERS' Membership Data for all Funds  |
| Post Retirement Benefit Increase                              | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

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

\*- Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.