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, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2020.

**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
December 11, 2020



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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, 2020. 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 May 5, 2020. 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. 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.
>
> Management's estimate of the net pension liability and deferred inflows and outflows related to OPEB is based on the actuary's expertise and experience. We evaluated the key factors and assumptions used to develop the OPEB calculations in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the net pension liability and deferred inflows and outflows related to pension are based on the CalPERS actuary's expertise experience. We evaluated the key factors and assumptions used to develop the net pension liability and deferred inflows and outflows related to pension 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 9 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 December 11, 2020.

*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.

<u>Other Matters</u>

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 & Hartzheim LLP

December 11, 2020
Santa Maria, California

**GOLETA SANITARY DISTRICT**

FINANCIAL STATEMENTS
June 30, 2020

## FINANCIAL SECTION



## BASIC FINANCIAL STATEMENTS



## REQUIRED SUPPLEMENTARY INFORMATION

# 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, 2020, 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, 2020, 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.



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***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 12, the Schedule of Proportionate Share of Net Pension Liability on page 37, the Schedule of Pension Contributions on page 38, the Schedule of Changes in Net OPEB Liability and Related Ratios on page 39, and the Schedule of OPEB Contributions on page 40, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 8, 2019. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2019, is consistent in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report December 11, 2020, 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, Levy & Hartzheim LLP

Santa Maria, California
December 11, 2020

**Goleta Sanitary District**
**Management's Discussion and Analysis**
**For the Year Ended June 30, 2020**

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, 2020. 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 $96,140,649 and $94,217,164 at the close of the June 30, 2020 and 2019 fiscal year, respectively.

- The District's total net position increased by $1,923,485 as of June 30, 2020 and increased by $2,536,113 as of June 30, 2019.

- The combination of operating and non-operating revenues, less operating expenses results in net income in the amount of $904,986 as of June 30, 2020 and net income in the amount of $1,291,621 as of June 30, 2019.

- Capital contributions were made to the District in the amount of $1,018,499 and $1,171,462 as of June 30, 2020 and 2019, respectively.

- The District is not carrying any debt.

## 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 revenues, expenses, and changes in net position 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, or compensated absences).

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

The financial statements can be found on pages 13-16 of this audit report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Goleta Sanitary District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The various funds are presented in the accompanying financial statements as a proprietary fund category, enterprise fund type.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 17-36 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 on pages 37-40.

**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 $96,140,649 and $94,217,164 at the close of June 30, 2020 and 2019, respectively.

By far the largest portion of the Goleta Sanitary District's net position, $71,611,940 (74.5 percent) and $71,545,583 (75.9 percent) as of June 30, 2020 and 2019, 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 would need to be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

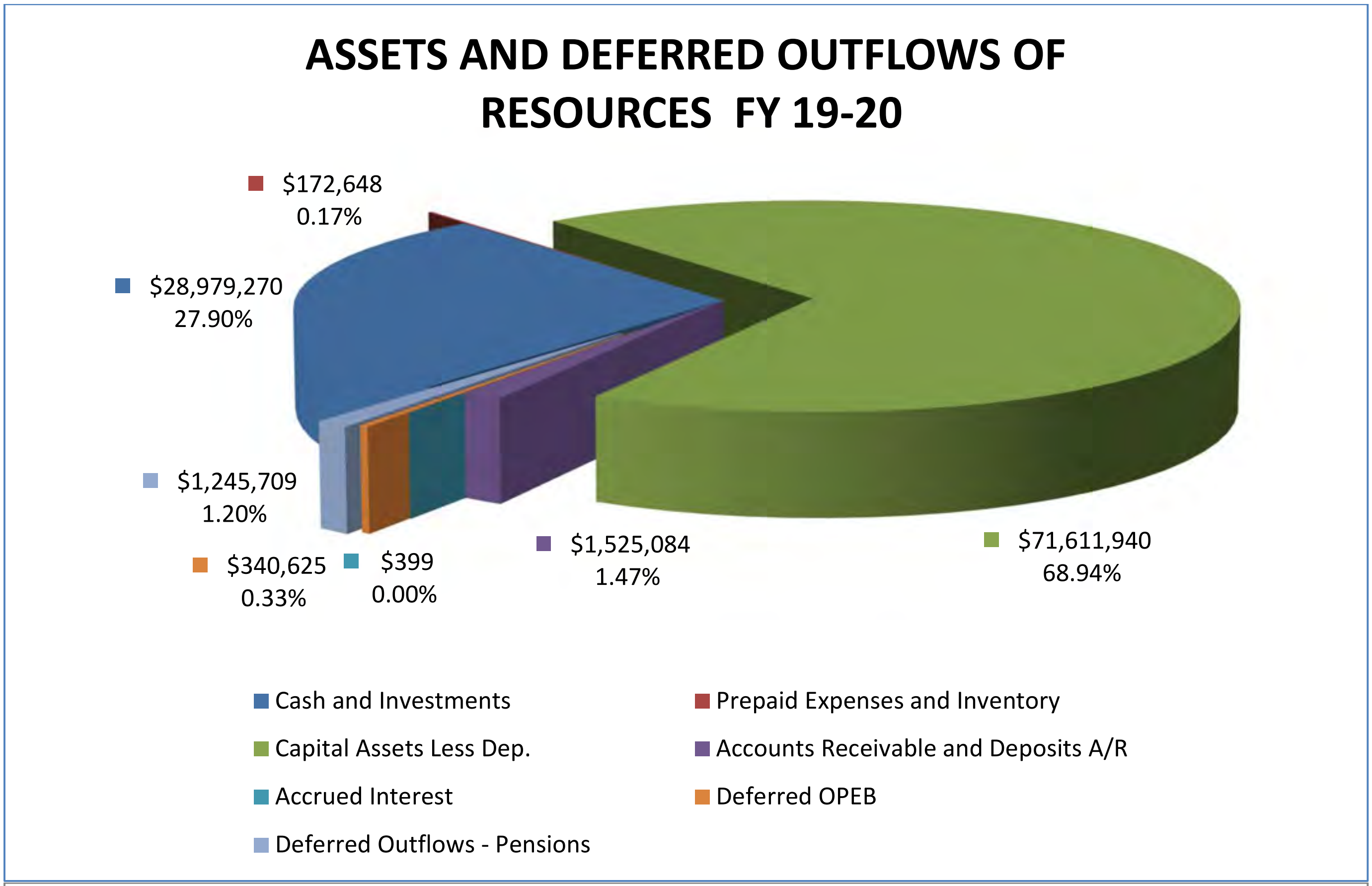
**GOLETA SANITARY DISTRICT'S NET POSITION**

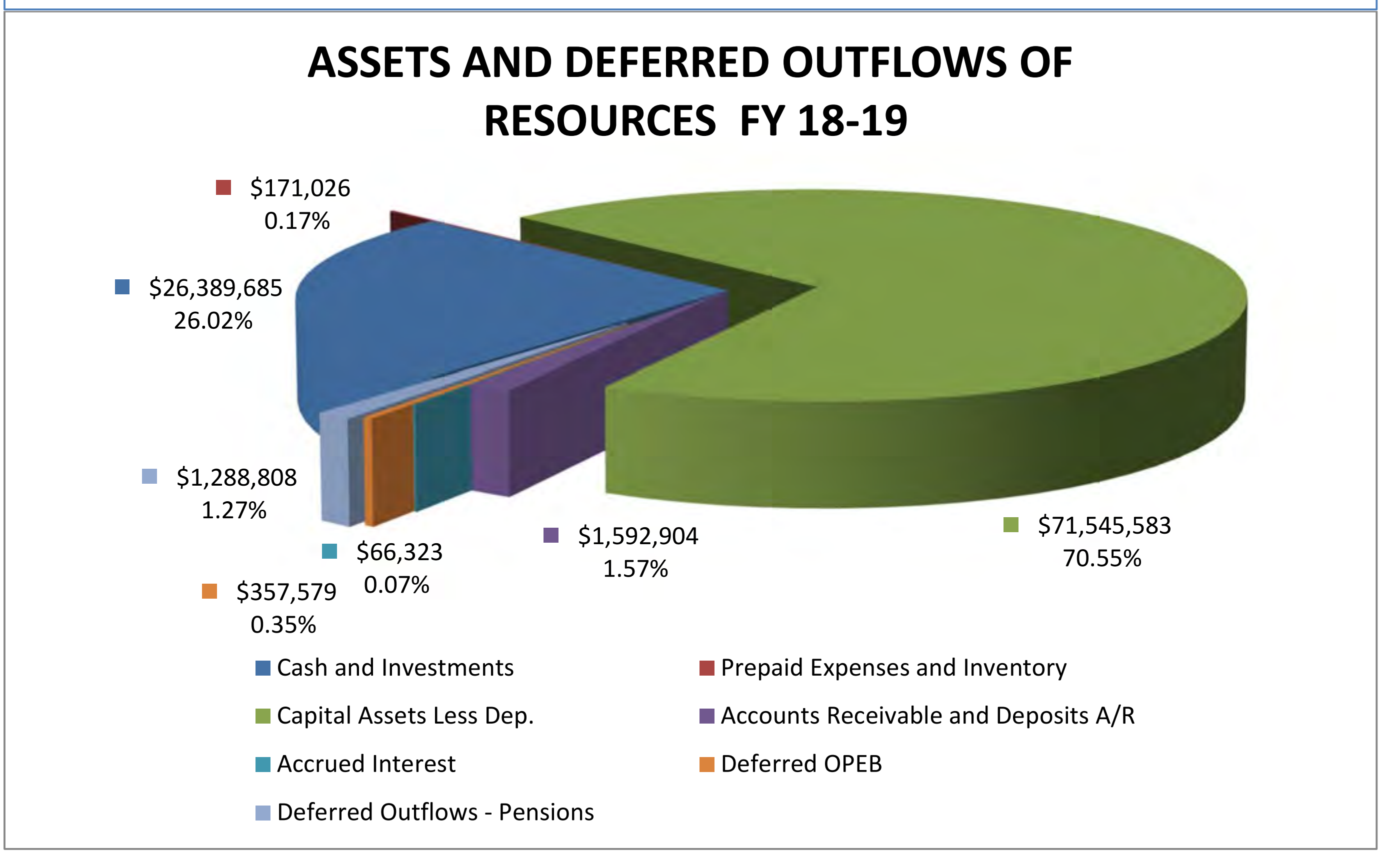
| | June 30, 2020 | June 30, 2019 |
|---|---|---|
| Current Assets | $ 25,692,866 | $ 22,171,207 |
| Noncurrent Assets | 76,596,475 | 77,594,314 |
| Total Assets | $ 102,289,341 | $ 99,765,521 |
| Deferred Outflows of Resources | $ 1,586,334 | $ 1,646,387 |
| Current Liabilities | $ 1,166,266 | $ 811,559 |
| Noncurrent Liabilities | 5,686,011 | 5,434,004 |
| Total Liabilities | $ 6,852,277 | $ 6,245,563 |
| Deferred Inflow of Resources | $ 882,749 | $ 949,181 |
| Net Position: | | |
| Net Investment in Capital Assets | $ 71,611,940 | $ 71,545,583 |
| Restricted | 4,984,535 | 6,048,731 |
| Unrestricted | 19,544,174 | 16,622,850 |
| Total Net Position | $ 96,140,649 | $ 94,217,164 |

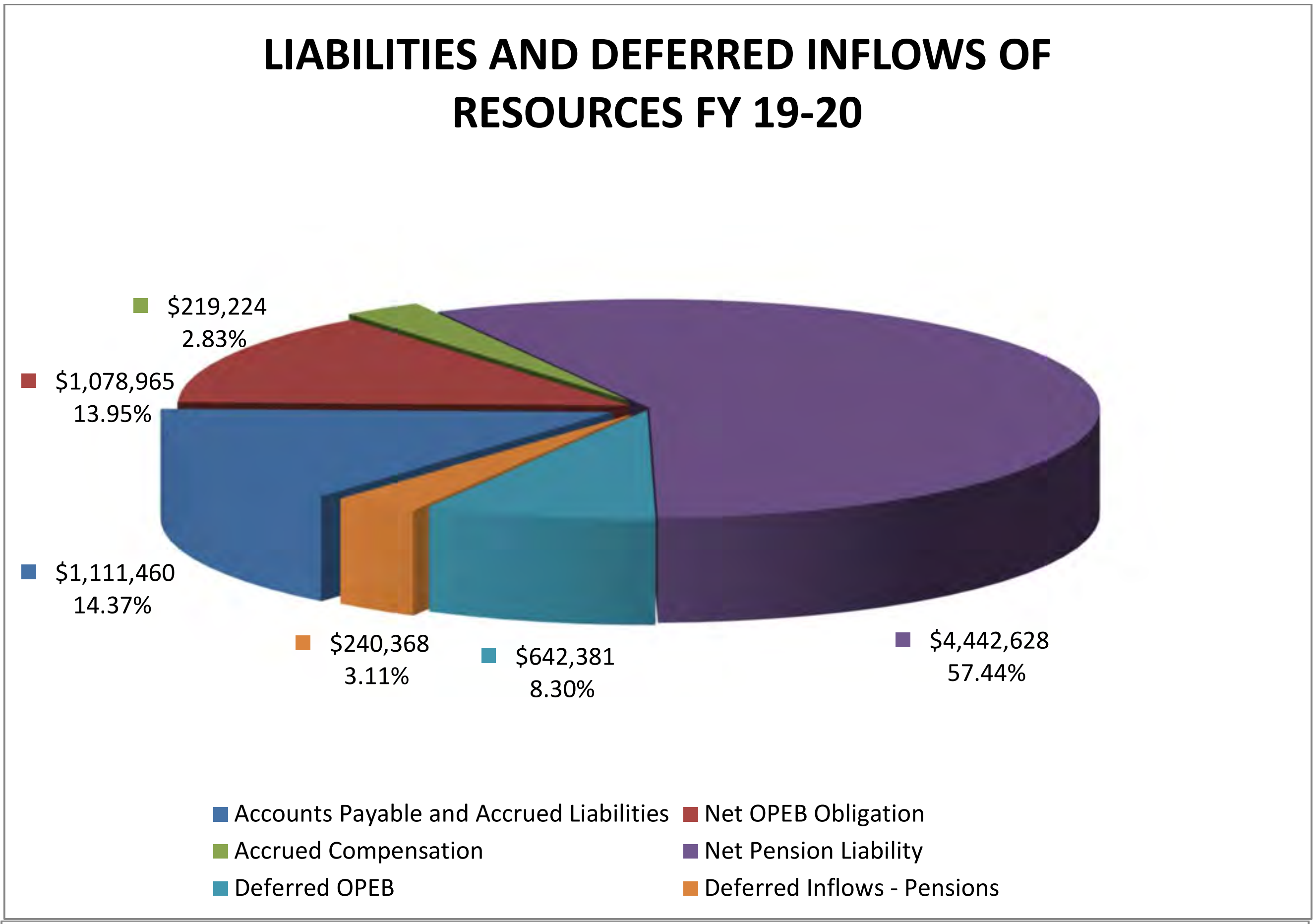
An additional portion of the Goleta Sanitary District's net position, $4,984,535 (5.2%) and $6,048,731 (6.4%) as of June 30, 2020 and 2019, respectively, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $19,544,174 and $16,622,850 as of June 30, 2020 and 2019, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

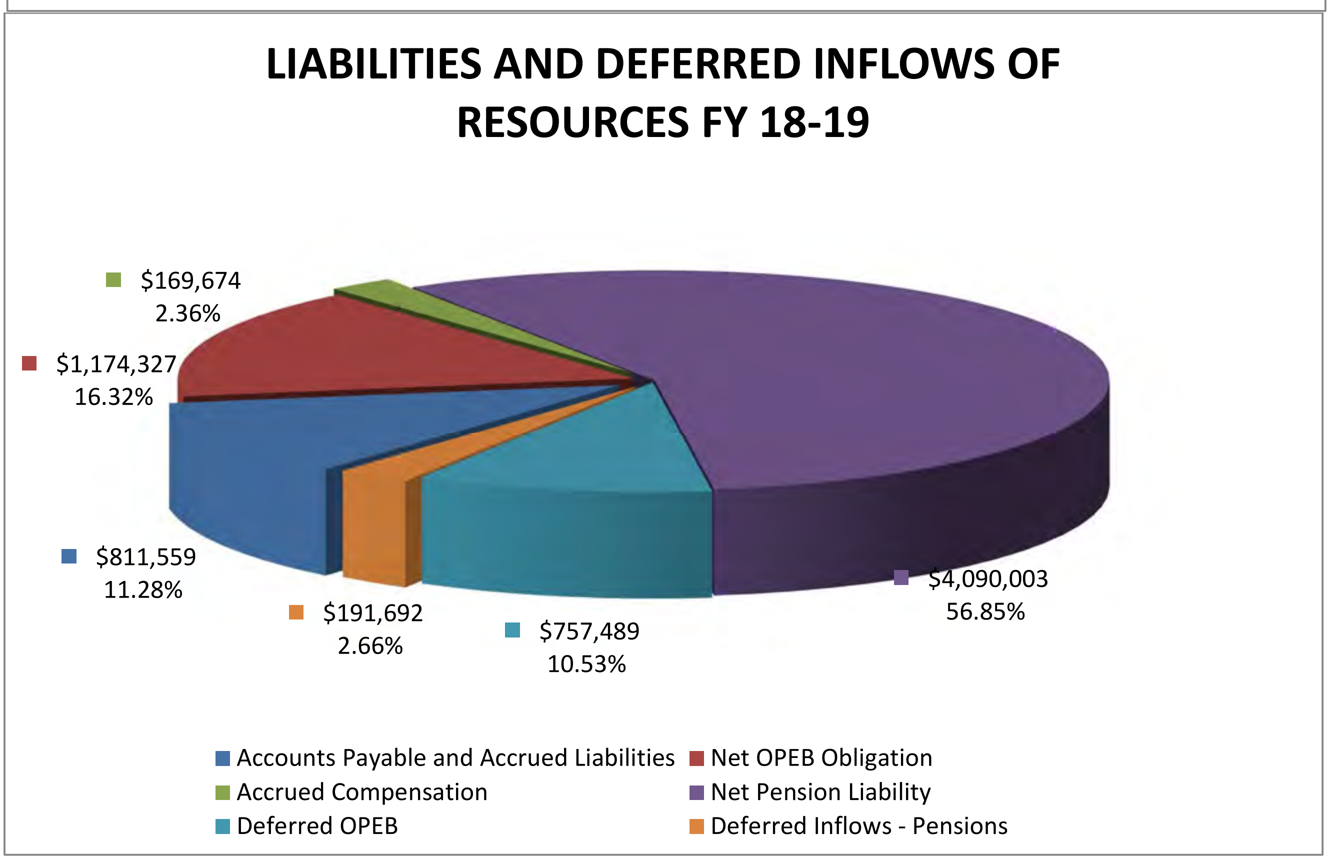
At the end of the current fiscal year, the Goleta Sanitary District is able to report positive balances in all three categories of net position. The same situation held true for the prior fiscal year.

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


ASSETS AND DEFERRED OUTFLOWS OF RESOURCES FY 19-20
$172,648
0.17%
$28,979,270
27.90%
$1,245,709
1.20%
$340,625
0.33%
$399
0.00%
$1,525,084
1.47%
$71,611,940
68.94%
Cash and Investments
Prepaid Expenses and Inventory
Capital Assets Less Dep.
Accounts Receivable and Deposits A/R
Accrued Interest
Deferred OPEB
Deferred Outflows - Pensions


ASSETS AND DEFERRED OUTFLOWS OF RESOURCES FY 18-19
$171,026
0.17%
$26,389,685
26.02%
$1,288,808
1.27%
$66,323
0.07%
$357,579
0.35%
$1,592,904
1.57%
$71,545,583
70.55%
Cash and Investments
Prepaid Expenses and Inventory
Capital Assets Less Dep.
Accounts Receivable and Deposits A/R
Accrued Interest
Deferred OPEB
Deferred Outflows - Pensions

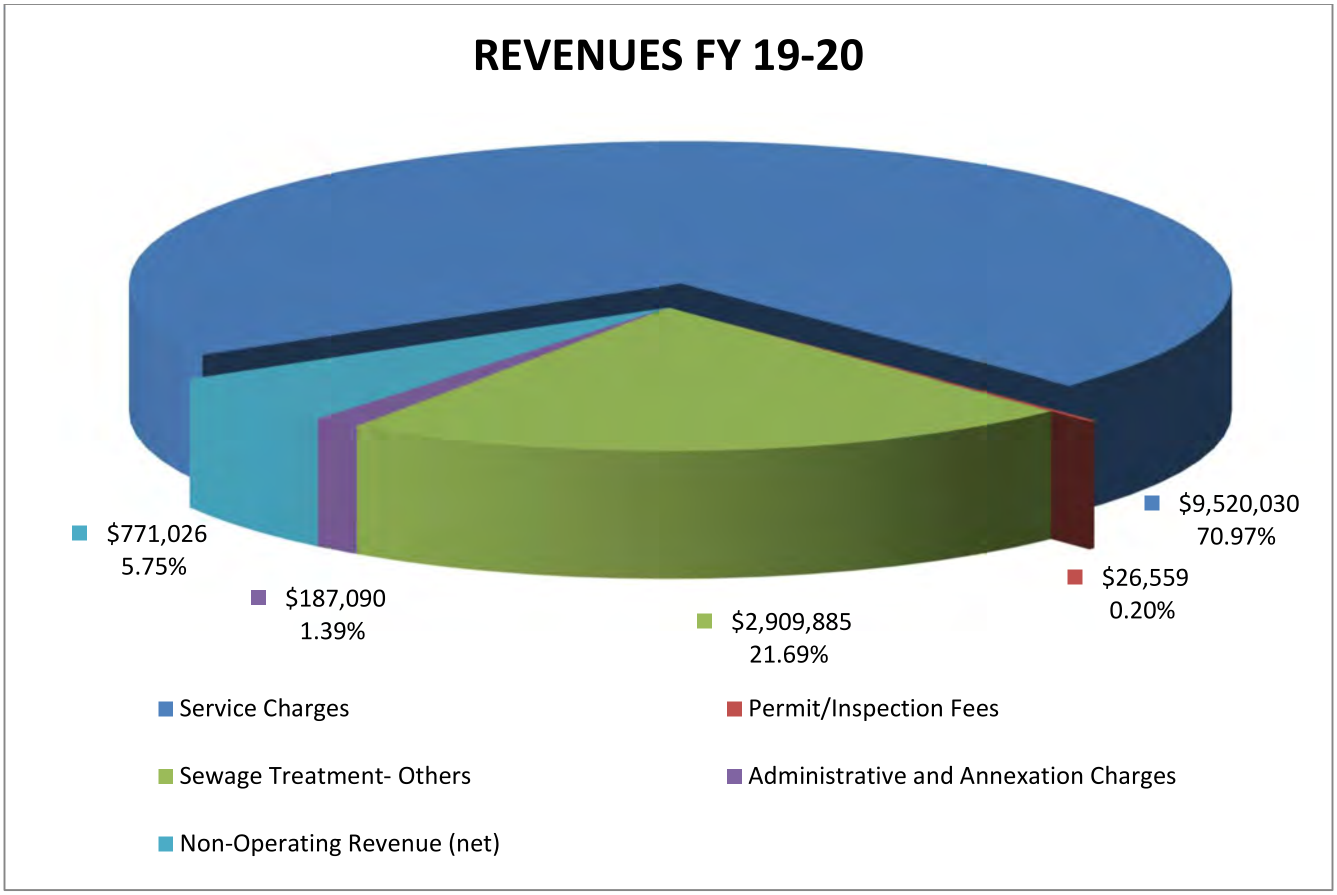

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES FY 19-20
$219,224
2.83%
$1,078,965
13.95%
$1,111,460
14.37%
$240,368
3.11%
$642,381
8.30%
$4,442,628
57.44%
Accounts Payable and Accrued Liabilities
Net OPEB Obligation
Accrued Compensation
Net Pension Liability
Deferred OPEB
Deferred Inflows - Pensions

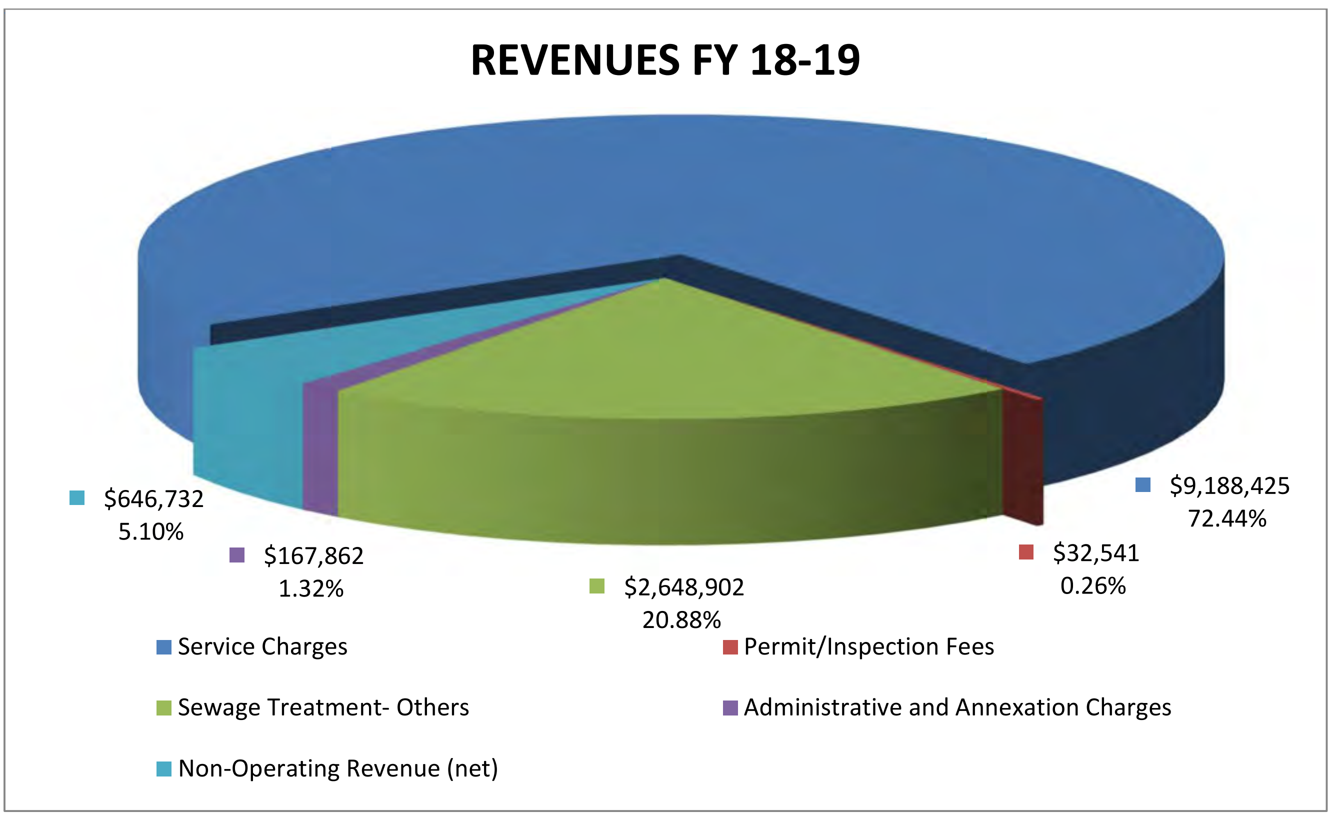

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES FY 18-19
$169,674
2.36%
$1,174,327
16.32%
$811,559
11.28%
$191,692
2.66%
$757,489
10.53%
$4,090,003
56.85%
Accounts Payable and Accrued Liabilities
Net OPEB Obligation
Accrued Compensation
Net Pension Liability
Deferred OPEB
Deferred Inflows - Pensions

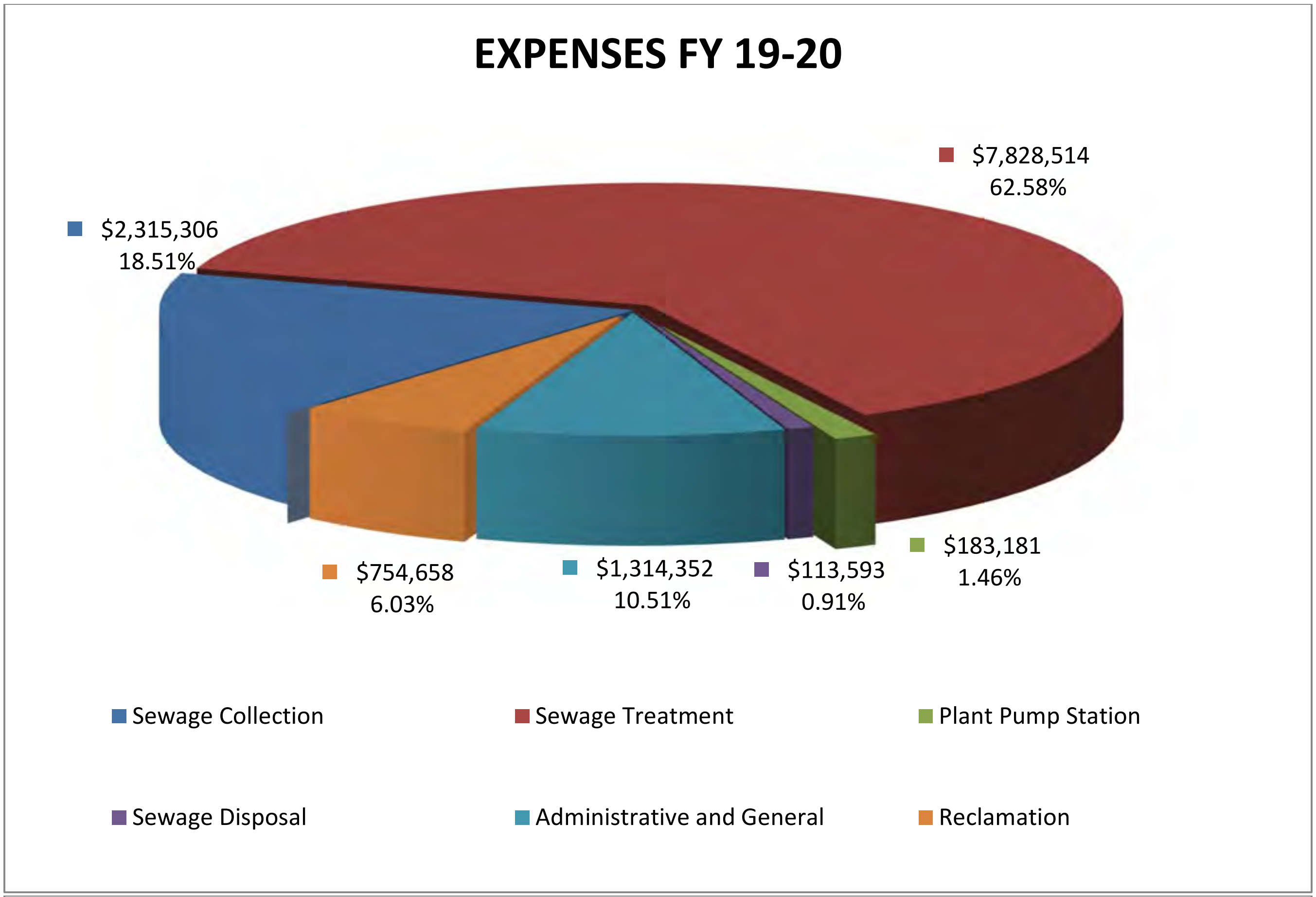
**Business-type activities.** The business-type activities increased the Goleta Sanitary District's net position by $1,923,485 and $2,463,083 as of June 30, 2020 and 2019, respectively. The key elements are as follows: operating and non-operating revenues exceeded operating and nonoperating expenses by $904,986 as of June 30, 2020 whereas operating and non-operating revenues exceeded operating and nonoperating expenses by $1,291,621 as of June 30, 2019. Capital contributions to the District's system totaled $1,018,499 and $1,171,462 as of June 30, 2020 and 2019, respectively. This is a net decrease of $152,963 in capital contributions as of June 30, 2020. The total revenues and capital contributions exceeded expenses during the 2019-2020 fiscal year. The District's construction in progress value of $2,498,532 has been recorded as capitalized amounts as detailed in Note 4 on page 25.

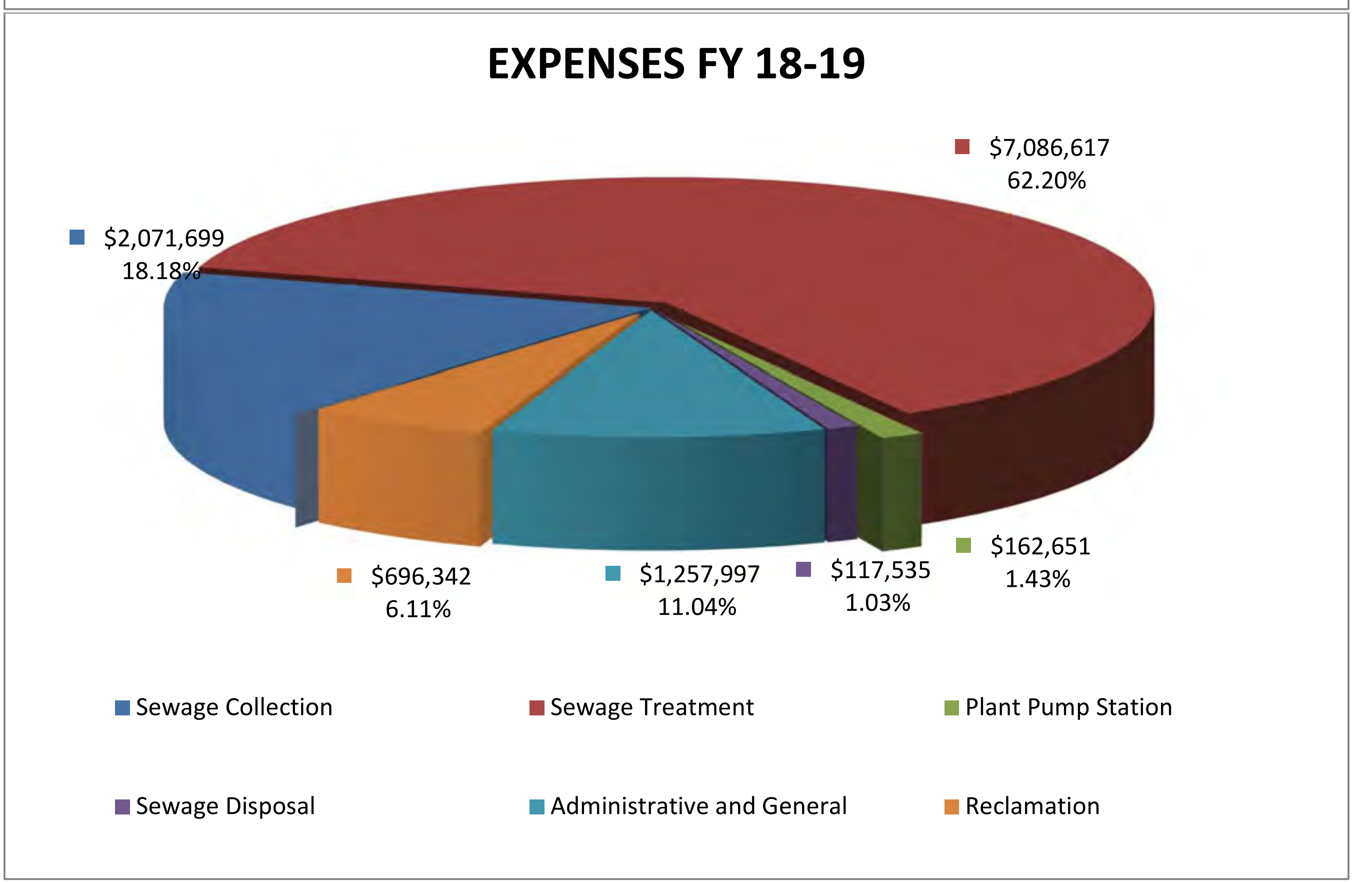
## GOLETA SANITARY DISTRICT'S CHANGE IN NET POSITION

| | June 30, 2020 | June 30, 2019 |
|---|---|---|
| Revenues: | | |
| Service Charges | $ 9,520,030 | $ 9,188,425 |
| Other Operating | 3,123,534 | 2,849,305 |
| Non-Operating | 771,026 | 646,732 |
| Sub-total: | $ 13,414,590 | $ 12,684,462 |
| Expenses: | | |
| Sewer Collection | $ 2,315,306 | $ 2,071,699 |
| Sewage Treatment | 7,828,514 | 7,086,617 |
| Plant Pump Station | 183,181 | 162,651 |
| Sewage Disposal | 113,593 | 117,535 |
| Administrative | 1,314,352 | 1,257,997 |
| Wastewater Reclamation | 754,658 | 696,342 |
| Total Expenses: | $ 12,509,604 | $ 11,392,841 |
| Net Income/(Loss) Before Capital Contributions: | $ 904,986 | $ 1,291,621 |
| Capital Contributions | 1,018,499 | 1,171,462 |
| Increase in Net Position | $ 1,923,485 | $ 2,463,083 |
| Net Position – Beginning of Year | $ 94,217,164 | $ 91,681,051 |
| Prior Period Adjustment | 0 | 73,030 |
| Net Position – End of Year | $ 96,140,649 | $ 94,217,164 |

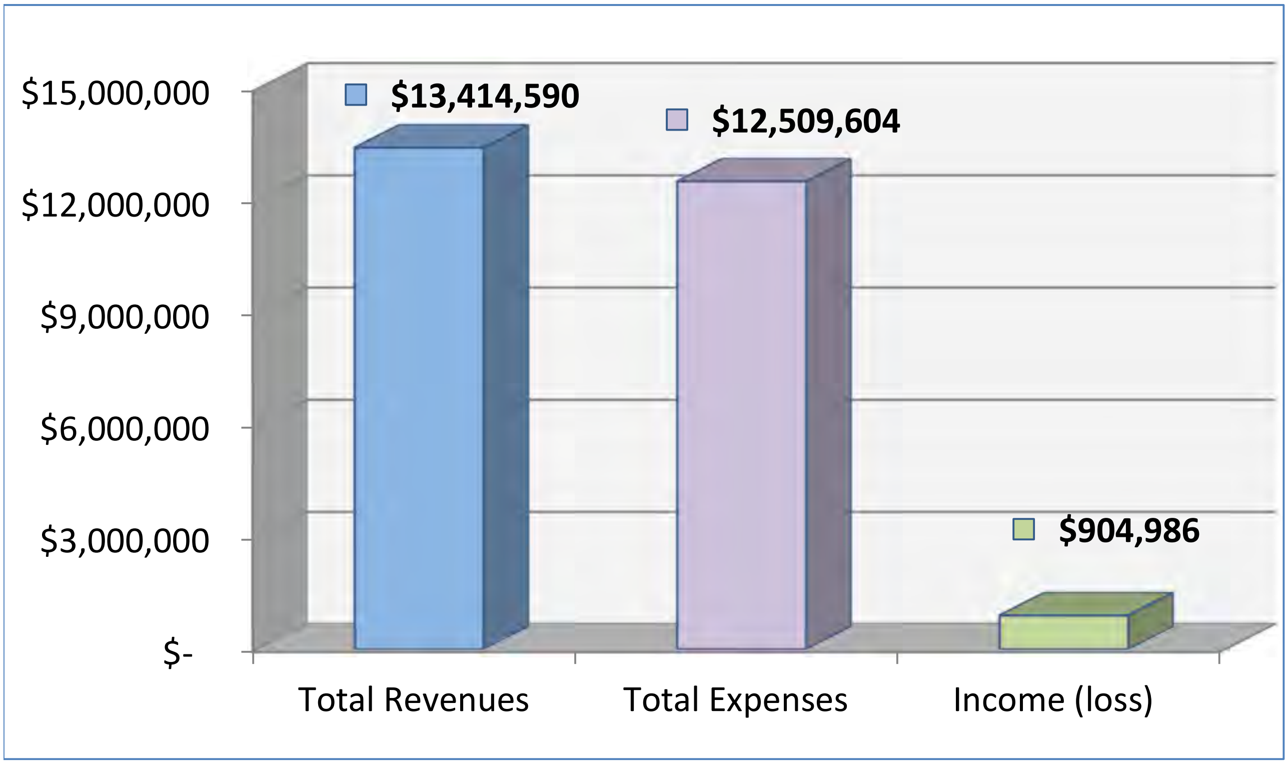

REVENUES FY 19-20
$771,026
5.75%
$187,090
1.39%
$2,909,885
21.69%
$26,559
0.20%
$9,520,030
70.97%
Service Charges
Permit/Inspection Fees
Sewage Treatment- Others
Administrative and Annexation Charges
Non-Operating Revenue (net)


REVENUES FY 18-19
$646,732
5.10%
$167,862
1.32%
$2,648,902
20.88%
$32,541
0.26%
$9,188,425
72.44%
Service Charges
Permit/Inspection Fees
Sewage Treatment- Others
Administrative and Annexation Charges
Non-Operating Revenue (net)

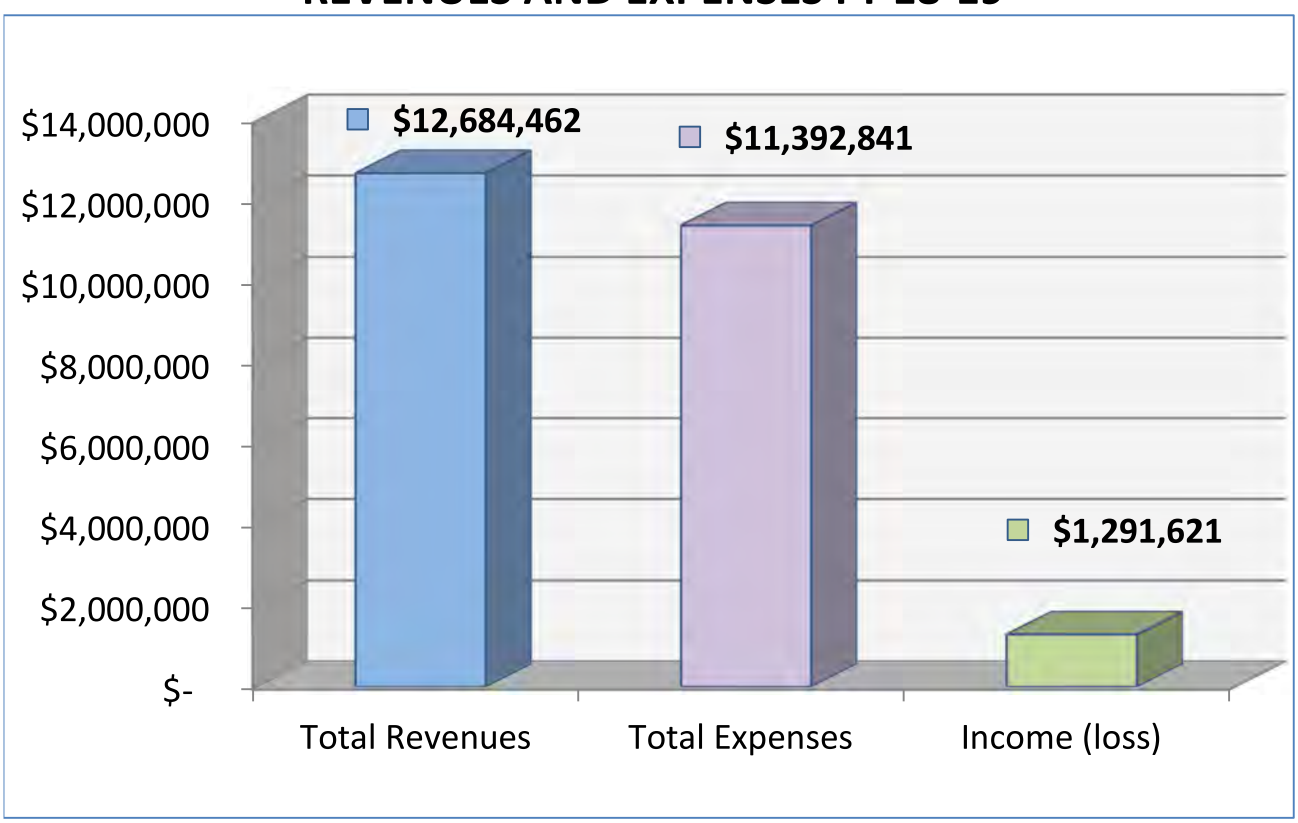

EXPENSES FY 19-20
$7,828,514
62.58%
$2,315,306
18.51%
$754,658
6.03%
$1,314,352
10.51%
$113,593
0.91%
$183,181
1.46%
Sewage Collection
Sewage Treatment
Plant Pump Station
Sewage Disposal
Administrative and General
Reclamation


EXPENSES FY 18-19
$7,086,617
62.20%
$2,071,699
18.18%
$696,342
6.11%
$1,257,997
11.04%
$117,535
1.03%
$162,651
1.43%
Sewage Collection
Sewage Treatment
Plant Pump Station
Sewage Disposal
Administrative and General
Reclamation

## REVENUES AND EXPENSES FY 19-20




## REVENUES AND EXPENSES FY 18-19



## 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, 2020 and June 30, 2019 amounts to $71,611,940 and $71,545,583 (net of accumulated depreciation). This investment in capital assets includes land, buildings, systems, improvements, machinery and equipment.

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

Collections department 2019-20 Pipeline Rehabilitation project and the Robin Hill Road Sewer Improvement project were completed. A jetter camera was purchased.

Treatment plant projects included: installation of a new 5400 Gallon Ferric Chloride storage tank and dosing facility including a duplex peristaltic pump skid, instrumentation and control; service air compressor # 2 was replaced; a manlift was purchased to replacing an existing manlift set to be retired; the ODS sludge pumps for primary clarifier #2 and #3 were replaced, piping and controls rehabilitated; the air handling unit for the Boiler-Generator building was replaced; Replacement PERTH gas mixing assembly was purchased for Anaerobic Digesters #1-3; Double doors within the Power and Maintenance building were replaced to meet safety code; a replacement digester sludge recirculation pump was purchased; a sludge transfer pump was replaced within the solids building; high pressure service air tank was purchased for the compressor at the weld shop; gas mixing blower for digester #2 was purchased; new drive units were purchased for secondary clarifier #3 and #4; a replacement maintenance cart was purchased; a natural gas only boiler was installed to replace an existing unit that was required to be decommissioned due regulatory changes; an electrical control bucket was purchased; used "sea-train" shipping containers were purchased to use as weather-proof onsite storage of parts and records; a new effluent de-chlorination residual analyzer was purchased.

The Administration building received a new roof to replace one that was beyond its useful life.

The Reclamation Facility also had major capital asset events; Replacement of Motor Control Centers 8080 and 8081 which were at the end of their useful lives; the addition of a emergency transfer switch to allow the facility to be operated during a power outage.

Construction in progress projects include the asset management and capital asset projects for both the Collections and Treatment Plant. Collections started the 2020 Pipeline Rehab and El Sueno lift station force main projects. The Treatment Plant has ongoing projects with the related biosolids handling and biosolids to energy projects; Cart storage and charge facility. The Lift Station rehab project is underway as is the Administration building office space remodel.

### GOLETA SANITARY DISTRICT'S CAPITAL ASSETS

| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|---|---|---|---|
| Land | $ 327,243 | $ 327,243 | $ 327,243 |
| Construction in Progress | 2,498,532 | 1,632,120 | 999,489 |
| Collection Facilities | 28,174,076 | 26,618,204 | 25,277,243 |
| Treatment Facilities | 70,041,905 | 69,345,240 | 68,844,920 |
| Disposal Facilities | 3,743,731 | 3,743,731 | 3,743,731 |
| Admin Facilities and All Vehicles | 3,285,357 | 3,222,687 | 3,200,857 |
| Wastewater Reclamation | 15,543,279 | 15,169,424 | 15,073,252 |
| Total | $ 123,614,123 | $ 120,058,649 | $ 117,466,735 |
| Less Accumulated Depreciation | $ (52,002,183) | $ (48,513,066) | $ (45,272,768) |
| Net Capital Assets | $ 71,611,940 | $ 71,545,583 | $ 72,193,967 |

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, 2020 and 2019, the Goleta Sanitary District did not hold any current or long-term debt besides compensated absences, net OPEB, and pension liability. Information on these three liabilities can be found in Note 5 on page 26 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The District sets its user rate schedule to cover the total O&M costs and accommodate an annual contribution to its depreciation reserve fund. The District reviewed and adjusted its sewer service rates for FY 2018-19 using a CPI index to accommodate increased O&M costs due to inflation.

**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 2009, the District joined the CalPERS medical program. An actuarial was performed during the 2019-2020 fiscal year to complete a valuation of the District's postemployment medical program as June 30, 2019 compliant under GASB 75. The purpose of the valuation is to determine the value of the expected postretirement benefits for current and future retirees and the net OPEB Benefit Cost of the fiscal year ending June 30, 2019. GASB 75 has many accounts and features that are similar to GASB 68 related to pensions. The actuarial report prepared during Fiscal Year 2019-2020 noted that the Plan Net OPEB liability at $1,078,965. Actual cash contributions to CERBT for Plan year 19-20 came to $334,190 in the form of direct payments to CERBT, reimbursements to retirees and direct premium payments to CalPERS. Details can be found in Note 9 beginning on page 32 of this report.

**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 - ENTERPISE FUND
June 30, 2020
With Comparative Totals for June 30, 2019

| | 2020 | 2019 |
|---|---|---|
| **Assets** | | |
| Current: | | |
| Cash and investments | $ 23,994,735 | $ 20,406,594 |
| Receivables: | | |
| Accounts | 1,525,084 | 1,592,904 |
| Accrued interest | 399 | 683 |
| Inventories | 94,046 | 113,842 |
| Prepaid expenses | 78,602 | 57,184 |
| **Total Current Assets** | 25,692,866 | 22,171,207 |
| Noncurrent: | | |
| Restricted: | | |
| Cash and investments | 4,984,535 | 5,983,091 |
| Accounts receivable | | 65,640 |
| Capital assets - net | 71,611,940 | 71,545,583 |
| **Total Noncurrent Assets** | 76,596,475 | 77,594,314 |
| **Total Assets** | 102,289,341 | 99,765,521 |
| **Deferred Outflows of Resources** | | |
| Deferred OPEB | 340,625 | 357,579 |
| Deferred pensions | 1,245,709 | 1,288,808 |
| **Total Deferred Outflows of Resources** | 1,586,334 | 1,646,387 |
| **Liabilities** | | |
| Current: | | |
| Accounts payable and accrued liabilities | 1,111,460 | 811,559 |
| Current portion of accrued compensation | 54,806 | |
| **Total Current Liabilities** | 1,166,266 | 811,559 |
| Noncurrent: | | |
| Accrued compensation | 164,418 | 169,674 |
| Net OPEB liability | 1,078,965 | 1,174,327 |
| Net pension liability | 4,442,628 | 4,090,003 |
| **Total Noncurrent Liabilities** | 5,686,011 | 5,434,004 |
| **Total Liabilities** | 6,852,277 | 6,245,563 |
| **Deferred Inflows of Resources** | | |
| Deferred OPEB | 642,381 | 757,489 |
| Deferred pensions | 240,368 | 191,692 |
| **Total Deferred Inflows of Resources** | 882,749 | 949,181 |
| **Net Position** | | |
| Net investment in capital assets | 71,611,940 | 71,545,583 |
| Restricted for capital expansion | 4,984,535 | 6,048,731 |
| Unrestricted | 19,544,174 | 16,622,850 |
| **Total Net Position** | $ 96,140,649 | $ 94,217,164 |

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, 2020
With Comparative Totals for the Fiscal Year Ended June 30, 2019

| | 2020 | 2019 |
|---|---|---|
| **Operating Revenues:** | | |
| Service charges | $ 9,520,030 | $ 9,188,425 |
| Permit and inspection fees | 26,559 | 32,541 |
| Sewage treatment-other agencies | 2,909,885 | 2,648,902 |
| Administrative charges | 187,090 | 167,862 |
| Total operating revenues | 12,643,564 | 12,037,730 |
| **Operating Expenses:** | | |
| Sewage collection | 2,315,306 | 2,071,699 |
| Sewage treatment | 7,828,514 | 7,086,617 |
| Plant pump station | 183,181 | 162,651 |
| Sewage disposal | 113,593 | 117,535 |
| Administrative and general | 1,314,352 | 1,257,997 |
| Wastewater reclamation | 754,658 | 696,342 |
| Total operating expenses | 12,509,604 | 11,392,841 |
| Operating income (loss) | 133,960 | 644,889 |
| **Nonoperating Revenues (Expenses):** | | |
| Property tax | 178,080 | 168,460 |
| Intergovernmental | 772 | 774 |
| Investment earnings | 553,658 | 535,041 |
| Annexation charges | | 15,907 |
| Reimbursements from participating agencies | 2,820 | 7,786 |
| Other | 40,263 | 41,214 |
| Loss on disposal of capital assets | (4,567) | (122,450) |
| Total nonoperating revenues (expenses) | 771,026 | 646,732 |
| Income (loss) before capital contributions | 904,986 | 1,291,621 |
| Capital contributions | 1,018,499 | 1,171,462 |
| Change in net position | 1,923,485 | 2,463,083 |
| Net position, beginning of fiscal year | 94,217,164 | 91,681,051 |
| Prior period adjustment | | 73,030 |
| Net position, beginning of fiscal year - restated | 94,217,164 | 91,754,081 |
| Net position, end of fiscal year | $ 96,140,649 | $ 94,217,164 |

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, 2020
With Comparative Totals for the Fiscal Year Ended June 30, 2019

| | 2020 | 2019 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | $ 12,777,024 | $ 11,497,072 |
| Payments to suppliers | (3,123,522) | (2,678,375) |
| Payments to employees | (5,287,409) | (4,955,851) |
| Net cash provided by operating activities | 4,366,093 | 3,862,846 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Property taxes | 178,080 | 168,460 |
| Intergovernmental | 772 | 774 |
| Reimbursements from other governments | 2,820 | 7,786 |
| Annexation charges | | 15,907 |
| Other revenue | 40,263 | 41,214 |
| Net cash provided by noncapital financing activities | 221,935 | 234,141 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Capital contributions | 1,018,499 | 1,171,462 |
| Acquisition and construction of capital assets | (3,570,884) | (2,893,028) |
| Net cash used by capital and related financing activities | (2,552,385) | (1,721,566) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | 553,942 | 573,119 |
| Net cash provided by investing activities | 553,942 | 573,119 |
| Net increase in cash and cash equivalents | 2,589,585 | 2,948,540 |
| Cash and cash equivalents, July 1 | 26,389,685 | 23,441,145 |
| Cash and cash equivalents, June 30 | $ 28,979,270 | $ 26,389,685 |
| Reconciliation to Statement of Net Position: | | |
| Cash and investments | $ 23,994,735 | $ 20,406,594 |
| Restricted cash and investments | 4,984,535 | 5,983,091 |
| | $ 28,979,270 | $ 26,389,685 |

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, 2020
With Comparative Totals for the Fiscal Year Ended June 30, 2019

| | 2020 | 2019 |
|---|---|---|
| **Reconciliation to reconcile operating income to net cash provided by operating activities:** | | |
| Operating income | $ 133,960 | $ 644,889 |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation | 3,499,960 | 3,418,962 |
| Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | | |
| Accounts receivable | 133,460 | (540,658) |
| Inventory | 19,796 | (19,342) |
| Prepaid expenses | (21,418) | 11,429 |
| Deferred outflows | 60,053 | 256,081 |
| Accounts payables | 299,901 | 372,475 |
| Net OPEB obligation | (95,362) | (864,015) |
| Compensated absences | 49,550 | (15,512) |
| Net pension liability | 352,625 | (134,329) |
| Deferred inflows | (66,432) | 732,866 |
| Net cash provided by operating activities | $ 4,366,093 | $ 3,862,846 |

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 ("US GAAP"). 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. The accounts have also 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 Financial Accounting Standards Board (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:

| | Capacity Rights in Plant | Capacity Rights In Ocean Outfall Line |
|---|---|---|
| Goleta Sanitary District | 47.87% | 55.81% |
| Goleta West Sanitary District | 40.78% | 35.00% |
| University of California at Santa Barbara | 7.09% | 4.70% |
| City of Santa Barbara | 2.84% | 2.60% |
| County of Santa Barbara | 1.42% | 1.89% |
| | 100.00% | 100.00% |

**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, 2020, 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, 2020 and 2019 was $219,224 and $169,674 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 specific existing 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, 2020 and 2019, the District received $178,080 and $168,460, 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) plan (Plan) 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. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### P. 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 two items which qualify for reporting in this category; refer to Notes 8 and 9 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 two items which qualify for reporting in this category; refer to Notes 8 and 9 for a detailed listing of the deferred inflows of resources the District has reported.

### Q. 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 consists 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.

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

R. **Future Accounting Pronouncements**

GASB Statements listed below will be implemented in future financial statements:

| | | |
|---|---|---|
| Statement No. 84 | "Fiduciary Activities" | The provisions of this statement are effective for fiscal years beginning after December 15, 2019. |
| Statement No. 87 | "Leases" | The provisions of this statement are effective for fiscal years beginning after June 15, 2021. |
| Statement No. 89 | "Accounting for Interest Cost Incurred before the End of a Construction Period" | The provisions of this statement are effective for fiscal years beginning after December 15, 2020. |
| Statement No. 90 | "Majority Equity Interests-an Amendment of GASB Statements No. 14 and No. 61" | The provisions of this statement are effective for fiscal years beginning after December 15, 2019. |
| Statement No. 91 | "Conduit Debt Obligations" | The provisions of this statement are effective for fiscal years beginning after December 15, 2021. |
| Statement No. 92 | "Omnibus 2020" | The provisions of this statement are effective for fiscal years beginning after June 15, 2021. |
| Statement No. 93 | "Replacement of Interbank Offered Rates" | The provision of this statement except for paragraphs 11b, 13, and 14 are effective for fiscal years beginning after June 15, 2020. Paragraph 11b is effective for fiscal years beginning after December 31, 2021. Paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021. |
| Statement No. 94 | "Public-Private and Public-Public Partnerships and Availability Payment Arrangements" | The provisions of this statement are effective for fiscal years beginning after June 15, 2022. |
| Statement No. 96 | "Subscription-Based Information Technology Arrangements" | The provisions of this statement are effective for fiscal years beginning after June 15, 2022. |
| Statement No. 97 | "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32" | The provisions of this statement are effective for fiscal years beginning December 15, 2019. |

S. **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, 2020 are classified in the accompanying financial statements as follows:

| | 2020 | 2019 |
|---|---|---|
| Cash on hand | $ 500 | $ 492 |
| Deposits with financial intitutions | 28,868,783 | 26,282,077 |
| Investments | 109,987 | 107,116 |
| | $ 28,979,270 | $ 26,389,685 |

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

| | 2020 | 2019 |
|---|---|---|
| Cash and investments | $ 23,994,735 | $ 20,406,594 |
| Restricted cash and investments | 4,984,535 | 5,983,091 |
| Total cash and investments | $ 28,979,270 | $ 26,389,685 |

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District had investments in the Local Agency Investment Fund, however, this external pool is not measured under Level 1, 2 or 3.

### 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.

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

## NOTE 3 - CASH AND INVESTMENTS (Continued)

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:

2020

| | | Remaining Maturity (in Months) | | | |
|---|---|---|---|---|---|
| Investment Type | Carrying Amount | 12 Months Or Less | 13-24 Months | 25-60 Months | More than 60 Months |
| State investment pool (LAIF) | $ 109,987 | $ 109,987 | $ - | $ - | $ - |
| | $ 109,987 | $ 109,987 | $ - | $ - | $ - |

2019

| | | Remaining Maturity (in Months) | | | |
|---|---|---|---|---|---|
| Investment Type | Carrying Amount | 12 Months Or Less | 13-24 Months | 25-60 Months | More than 60 Months |
| State investment pool (LAIF) | $ 107,116 | $ 107,116 | $ - | $ - | $ - |
| | $ 107,116 | $ 107,116 | $ - | $ - | $ - |

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.

2020

| | | | Rating as of Fiscal Year End | | | |
|---|---|---|---|---|---|---|
| Investment Type | Carrying Amount | Minimum Legal Rating | AAA | A+ | Baa | Not Rated |
| State investment pool (LAIF) | $ 109,987 | N/A | $ - | $ - | $ - | $ 109,987 |
| | $ 109,987 | | $ - | $ - | $ - | $ 109,987 |

2019

| | | | Rating as of Fiscal Year End | | | |
|---|---|---|---|---|---|---|
| Investment Type | Carrying Amount | Minimum Legal Rating | AAA | A+ | Baa | Not Rated |
| State investment pool (LAIF) | $ 107,116 | N/A | $ - | $ - | $ - | $ 107,116 |
| | $ 107,116 | | $ - | $ - | $ - | $ 107,116 |

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The 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.

As of June 30, 2020, $28,885,033 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Collateral for Deposits

The collateral for deposits 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.

## NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 and June 30, 2019 was as follows:

| | Balance July 1, 2019 | Additions | Deletions | Transfers | Balance June 30, 2020 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ 327,243 | $ - | $ - | $ - | $ 327,243 |
| Construction in progress | 1,632,120 | 2,637,251 | (303) | (1,770,536) | 2,498,532 |
| Total capital assets not being depreciated | $ 1,959,363 | $ 2,637,251 | $ (303) | $ (1,770,536) | $ 2,825,775 |
| Capital assets being depreciated: | | | | | |
| Collection facilities | $ 26,618,204 | $ 78,895 | $ - | $ 1,476,977 | $ 28,174,076 |
| Treatment facilities | 69,345,240 | 413,303 | (10,197) | 293,559 | 70,041,905 |
| Disposal facilities | 3,743,731 | | | | 3,743,731 |
| General administrative facilities | 3,222,687 | 62,670 | | | 3,285,357 |
| Wastewater reclamation facility | 15,169,424 | 378,765 | (4,910) | | 15,543,279 |
| | 118,099,286 | 933,633 | (15,107) | 1,770,536 | 120,788,348 |
| Less accumulated depreciation | 48,513,066 | 3,499,960 | 10,843 | | 52,002,183 |
| Total capital assets being depreciated, net | $ 69,586,220 | $ (2,566,327) | $ (4,264) | $ 1,770,536 | $ 68,786,165 |
| Net capital assets | $ 71,545,583 | $ 70,924 | $ (4,567) | $ - | $ 71,611,940 |

| | Balance July 1, 2018 | Additions | Deletions | Transfers | Balance June 30, 2019 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $ 327,243 | $ - | $ - | $ - | $ 327,243 |
| Construction in progress | 999,489 | 2,279,941 | (48,492) | (1,598,818) | 1,632,120 |
| Total capital assets not being depreciated | $ 1,326,732 | $ 2,279,941 | $ (48,492) | $ (1,598,818) | $ 1,959,363 |
| Capital assets being depreciated: | | | | | |
| Collection facilities | $ 25,277,243 | $ 39,159 | $ (19,114) | $ 1,320,916 | $ 26,618,204 |
| Treatment facilities | 68,844,920 | 297,932 | (75,514) | 277,902 | 69,345,240 |
| Disposal facilities | 3,743,731 | | | | 3,743,731 |
| General administrative facilities | 3,200,857 | 38,396 | (16,566) | | 3,222,687 |
| Wastewater reclamation facility | 15,073,252 | 237,600 | (141,428) | | 15,169,424 |
| | 116,140,003 | 613,087 | (252,622) | 1,598,818 | 118,099,286 |
| Less accumulated depreciation | 45,272,768 | 3,418,962 | 178,664 | | 48,513,066 |
| Total capital assets being depreciated, net | $ 70,867,235 | $ (2,805,875) | $ (73,958) | $ 1,598,818 | $ 69,586,220 |
| Net capital assets | $ 72,193,967 | $ (525,934) | $ (122,450) | $ - | $ 71,545,583 |

## NOTE 5 – LONG-TERM LIABILITIES

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2020 and June 30, 2019:

| | Balance July 1, 2019 | Additions | Retirements | Balance June 30, 2020 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | $ 169,674 | $ 190,095 | $ 140,545 | $ 219,224 | $ 54,806 |
| Net OPEB liability | 1,174,327 | 414,546 | 509,908 | 1,078,965 | |
| Net pension liability | 4,090,003 | 882,467 | 529,842 | 4,442,628 | |
| Total long-term liabilities | $ 5,434,004 | $ 1,487,108 | $ 1,180,295 | $ 5,740,817 | $ 54,806 |

| | Balance July 1, 2018 | Additions | Retirements | Balance June 30, 2019 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated absences | 185,186 | $ 182,318 | $ 197,830 | $ 169,674 | $ - |
| Net OPEB liability | 2,038,342 | 463,413 | 1,327,428 | 1,174,327 | |
| Net pension liability | 4,224,332 | 888,823 | 1,023,152 | 4,090,003 | |
| Total long-term liabilities | $ 6,447,860 | $ 1,534,554 | $ 2,548,410 | $ 5,434,004 | $ - |

## 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, 2020 and 2019, this reserve was $4,984,535 and $6,048,731, 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 Plan**

*Plan Description*

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, 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 statue 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, 2020, are summarized as follows:

| | Miscellaneous | |
|---|---|---|
| Hire Date | Prior to January 1, 2013 | On or after January 1, 2013 |
| 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 | 50-63 | 52-67 |
| Monthly benefits, as a % of eligible compensation | 1.426% to 2.418% | 1.0% to 2.5% |
| Required employee contribution rates | 7% | 6.5% |
| Required employer contribution rates | 10.868%+$335,515 | 7.072%+$1,971 |

*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 $619,908 for the fiscal year ended June 30, 2020.

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

At June 30, 2020, the District reported a liability of $4,442,628 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. 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, 2019, the District's proportion share of net pension liability was as follows:

| | |
|---|---|
| Proportion-June 30, 2018 | 0.10853% |
| Proportion-June 30, 2019 | 0.11094% |
| Change-increase(decrease) | 0.00241% |

## NOTE 8 – PENSION PLAN (Continued)

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

For the year ended June 30, 2020, the District recognized pension expense of $2,362,996. 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, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes in assumptions | $ 211,845 | $ 75,097 |
| Differences between expected and actual experience | 308,559 | 23,907 |
| Net difference between projected and actual earnings on retirement plan investments | | 77,671 |
| Difference in proportions | 9,988 | 63,693 |
| Differences in actual contributions and proportionate share of contributions | 95,409 | |
| District contributions subsequent to the measurement date | 619,908 | |
| | $ 1,245,709 | $ 240,368 |

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.

$619,908 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, 2021.

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, | Amount |
|---|---|
| 2021 | $ 356,119 |
| 2022 | (24,841) |
| 2023 | 38,460 |
| 2024 | 15,695 |
| | $ 385,433 |

**NOTE 8 – PENSION PLAN (Continued)**

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

*Actuarial Assumptions*

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | Miscellaneous |
|---|---|
| Valuation Date | June 30, 2018 |
| Measurement Date | June 30, 2019 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.50% |
| Salary Increases | Varies by Entry Age and Service |
| Investment Rate of Return | 7.0% Net Pension Plan Investment and Administrative Expenses; includes Inflation |
| Mortality | Derived using CalPERS' Membership Data for all Funds (1) |
| Post Retirement Benefit Increase | Contract COLA up to 2.50% 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 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table please refer to December 2017 experience study report.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), 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 testing the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund, including PERF C. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB No. 68 section.

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 2022. 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 2021-22 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.

**NOTE 8 – PENSION PLAN (Continued)**

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

*Discount Rate (Continued)*

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 Strategic Allocation | Real Return Years 1-10(a) | Real Return Years 11+(b) |
|---|---|---|---|
| Global Equity | 50.0% | 4.80% | 5.98% |
| Global Fixed Income | 28.0% | 1.00% | 2.62% |
| Inflation Sensitive | 0.0% | 0.77% | 1.81% |
| Private Equity | 8.0% | 6.30% | 7.23% |
| Real Assets | 13.0% | 3.75% | 4.93% |
| Liquidity | 1.0% | 0.00% | -0.92% |
| Total | 100.0% | | |

(a) An expected inflation of 2.0% was used for this period.
(b) An expected inflation of 2.92% was used for this period.

*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 7.15% 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 (6.15 percent) or 1- percentage point higher (8.15 percent) than the current rate:

| | 1% Decrease 6.15% | Discount Rate 7.15% | 1% Increase 8.15% |
|---|---|---|---|
| District's proportionate share of the net pension plan liability | $ 6,993,630 | $ 4,442,628 | $ 2,336,956 |

*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, 2020, the District had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2020.

**NOTE 9 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

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.

Funding Policy

In 2009, the District joined the CalPERS medical program. In 2020, 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.

Employees Covered

As of June 30, 2018, actuarial valuation, the following current and former employees were covered by the benefit terms under the District's Plan:

| | |
|---|---|
| Active employee | 33 |
| Inactive employees or beneficiaries currently receiving benefits | 10 |
| Total | 43 |

Contributions

The District has a trust with the California Employers' Retiree Benefit Trust (CERBT). The District currently finances the trust by making 100% of the actuarially determined contribution.

Net OPEB Liability

The District's Net OPEB Liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of June 30, 2018. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

*Actuarial assumptions.* The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Discount Rate | 7.28%, based on the CERBT Strategy 1 investment policy |
| Investment Rate of Return | 7.28%, based on the CERBT Strategy 1 investment policy |
| Inflation | 2.26% |
| Salary Increases | 3.25% |
| Mortality Rate | Derived from 2017 CalPERS study |
| Healthcare Trend Rate | 7.00% Pre-65 and 5.00% Post-65;<br>5-6.75% for later years |
| Administrative Expenses | $1,130 |

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

*Discount rate.* GASB 75 requires a discount rate that reflects the following:

a) The long-term expected rate of return on OPEB plan investments — to the extent that the OPEB plan's fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher — to the extent that the conditions in (a) are not met.

The discount rate is based on a blend of the long-term expected rate of return on assets for benefits covered by plan assets and a yield or index for 20 years, tax-exempt general obligation municipal bonds with an average of AA/Aa or better for benefits not covered by plan assets.

The arithmetic long-term expected real rates of return by asset class for the next 10 years as provided in a report by JP Morgan and listed in the Investments section of this Note. For year thereafter, returns were based on historical average index real returns over the last 30 years assuming a similar equity/fixed investment mix and a 2.26% inflation rate. Investment expenses were assumed to be 10 basis points per year. These returns were matched with cash flows for benefits covered by plan assets and the Bond Buyer 20-Bond General Obligation index was matched with cash flows not covered by plan assets to measure the reasonableness of the choice in discount rate.

| | **June 30, 2019** | **June 30, 2018** |
|---|---|---|
| Discount Rate | 7.28% | 7.28% |
| Bond buyer 20-Bond GO Index | 3.50% | 3.87% |

Changes in the OPEB Liability

| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability/(Asset) |
|---|---|---|---|
| Balance at June 30, 2018-Measurement Date | $ 3,650,528 | $ 2,476,201 | $ 1,174,327 |
| Changes recognized for the measurement period: | | | |
| Service cost | 142,604 | | 142,604 |
| Interest | 271,402 | | 271,402 |
| Changes of assumptions | | | |
| Difference between expected and actual experience | 3,998 | | 3,998 |
| Contributions - employer | | 356,618 | (356,618) |
| Net investment income | | 157,288 | (157,288) |
| Benefit payments | (132,500) | (132,500) | |
| Administrative expense | | (540) | 540 |
| Net Changes | 285,504 | 380,866 | (95,362) |
| Balance at June 30, 2019-Measurement Date | $ 3,936,032 | $ 2,857,067 | $ 1,078,965 |

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

*Sensitivity of the net OPEB liability to changes in the discount rate.* The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.28 percent) or 1-percentage-point higher (8.28 percent) than the current discount rate:

| | 1% Decrease 6.28% | Discount Rate 7.28% | 1% Increase 8.28% |
|---|---|---|---|
| Net OPEB Liability | $ 1,680,172 | $ 1,078,965 | $ 558,547 |

*Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.00 percent decreasing to 4.00 percent) or 1-percentage-point higher (8.00 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

| | 1% Decrease (6.00% decreasing to 4.00%) | Trend Rate (7.00% decreasing to 5.00%) | 1% Increase (8.00% decreasing to 6.00%) |
|---|---|---|---|
| Net OPEB Liability | $ 528,181 | $ 1,078,965 | $ 1,770,734 |

Investments

The allocation of the plan's invested assets is established by CERBT Strategy 1. The objective is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. The asset allocations and benchmarks for CERBT Strategy 1 are listed below:

| Investment Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Equity | 60.00% | 5.49% |
| Fixed Income | 32.00% | 1.65% |
| REITs | 8.00% | 5.06% |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2020, the District recognized OPEB expense of $140,674. As of the fiscal year ended June 30, 2020, the District reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| OPEB contributions subsequent to measurement date | $ 334,190 | $ - |
| Change in assumptions | | 450,351 |
| Difference between expected and actual experience | 4,364 | 192,030 |
| Net difference between projected and actual earnings on retirement plan investments | 2,071 | |
| | $ 340,625 | $ 642,381 |

$334,190 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2021.

## NOTE 9 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

| Fiscal year Ending June 30, | | Amount |
|---|---|---|
| 2021 | $ | (85,609) |
| 2022 | | (85,610) |
| 2023 | | (75,620) |
| 2024 | | (74,710) |
| 2025 | | (81,084) |
| Thereafter | | (233,313) |
| | $ | (635,946) |

## 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 – SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

**NOTE 12 – SUBSEQUENT EVENTS (Continued)**

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity as of the date of issuance of these financial statements.

# REQUIRED SUPPLEMENTARY INFORMATION

**GOLETA SANITARY DISTRICT**
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last 10 Years*
As of June 30, 2020

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

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Proportion of the net pension liability | 0.04244% | 0.04244% | 0.04260% | 0.04215% |
| Proportionate share of the net pension liability | $ 4,442,628 | $ 4,090,003 | $ 4,224,332 | $ 3,647,366 |
| Covered-payroll | $ 2,711,945 | $ 2,995,198 | $ 2,609,634 | $ 2,526,857 |
| Proportionate share of the net pension liability as percentage of covered payroll | 163.82% | 136.55% | 161.87% | 144.34% |
| Plan's total pension liability | $ 41,426,453,489 | $ 38,944,855,364 | $ 37,161,348,332 | $ 33,358,627,624 |
| Plan's fiduciary net position | $ 31,179,414,067 | $ 29,308,589,559 | $ 27,244,095,376 | $ 24,705,532,291 |
| Plan fiduciary net position as a percentage of the total pension liability | 75.26% | 75.26% | 73.31% | 74.06% |

| | 2016 | 2015 |
|---|---|---|
| Proportion of the net pension liability | 0.03991% | 0.04434% |
| Proportionate share of the net pension liability | $ 2,739,101 | $ 2,759,210 |
| Covered-payroll | $ 2,378,509 | $ 2,309,232 |
| Proportionate share of the net pension liability as percentage of covered payroll | 115.16% | 119.49% |
| Plan's total pension liability | $ 31,771,217,402 | $ 30,829,966,631 |
| Plan's fiduciary net position | $ 24,907,305,871 | $ 24,607,502,515 |
| Plan fiduciary net position as a percentage of the total pension liability | 78.40% | 79.82% |

**Note to Schedule:**

Changes in assumptions
In 2018, inflation was changed from 2.75 percent to 2.50 percent and individual salary increases and overall payroll growth was reduced from 3.00 percent to 2.75 percent.

In 2017, as par of the Asset Liability Management review cycle, the discount rate was changed from 7.65 percent to 7.15 percent.

In 2016, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

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 six years are shown.

**GOLETA SANITARY DISTRICT**
SCHEDULE OF PENSION CONTRIBUTIONS
Last 10 Years*
As of June 30, 2020

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

| | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Contractually required contribution (actuarially determined) | $ 619,908 | $ 529,842 | $ 545,176 | $ 429,773 |
| Contribution in relation to the actuarially determined contributions | (619,908) | (529,842) | (545,176) | (429,773) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - |
| Covered-payroll | $ 2,962,731 | $ 2,711,945 | $ 2,995,198 | $ 2,609,634 |
| Contributions as a percentage of covered payroll | 20.92% | 19.54% | 18.20% | 16.47% |

| | 2016 | 2015 |
|---|---|---|
| Contractually required contribution (actuarially determined) | $ 392,036 | $ 398,321 |
| Contribution in relation to the actuarially determined contributions | (392,036) | (398,321) |
| Contribution deficiency (excess) | $ - | $ - |
| Covered-payroll | $ 2,526,857 | $ 2,378,509 |
| Contributions as a percentage of covered payroll | 15.51% | 16.75% |

**Notes to Schedule**

Valuation Date: 6/30/2018

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019/2020 were derived from the June 30, 2018 funding valuation report.

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method/Period | For details, see June 30, 2018 funding valuation report. |
| Inflation | 2.75% |
| Salary Increases | Varies by entry age and service |
| Payroll Growth | 3.00% |
| Investment Rate of Return | 7.0% net of pension plan investment and administrative expenses; includes inflation. |
| Retirement Age | The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. |
| Mortality | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. |

*- Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

**GOLETA SANITARY DISTRICT**

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Last 10 Years*

As of June 30, 2020

| Measurement Period | 2019 | 2018 | 2017 |
|---|---|---|---|
| **Total OPEB Liability** | | | |
| Service cost | $ 142,604 | $ 155,373 | $ 147,974 |
| Interest on the total OPEB liability | 271,402 | 306,910 | 284,763 |
| Actual and expected experience difference | 3,998 | (240,756) | 1,341 |
| Changes in assumptions | | (564,625) | |
| Changes in benefit terms | | | |
| Benefit payments | (132,500) | (131,291) | (143,019) |
| **Net change in total OPEB Liability** | 285,504 | (474,389) | 291,059 |
| **Total OPEB liability- beginning** | 3,650,528 | 4,124,917 | 3,833,858 |
| **Total OPEB liability- ending (a)** | $ 3,936,032 | $ 3,650,528 | $ 4,124,917 |
| | | | |
| **Plan Fiduciary Net Position** | | | |
| Contribution - employer | $ 356,618 | $ 357,543 | $ 336,291 |
| Net investment income | 157,288 | 164,504 | 181,510 |
| Benefit payments | (132,500) | (131,291) | (143,019) |
| Administrative expense | (540) | (1,130) | (926) |
| **Net change in plan fiduciary net position** | 380,866 | 389,626 | 373,856 |
| **Plan fiduciary net position- beginning** | 2,476,201 | 2,086,575 | 1,712,719 |
| **Plan fiduciary net position- ending (b)** | $ 2,857,067 | $ 2,476,201 | $ 2,086,575 |
| | | | |
| **Net OPEB liability - ending (a)-(b)** | $ 1,078,965 | $ 1,174,327 | $ 2,038,342 |
| | | | |
| Plan fiduciary net position as a percentage of the total OPEB liability | 72.59% | 67.83% | 50.58% |

*- Fiscal year 2018 was the 1st year of implementation, therefore only three years are shown.

**GOLETA SANITARY DISTRICT**
SCHEDULE OF OPEB CONTRIBUTIONS
Last 10 Years*
As of June 30, 2020

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

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Actuarially Determined Contribution (ADC) | $ 238,643 | $ 238,643 | $ 321,290 |
| Contributions in relation to the ADC | (344,190) | (356,618) | (357,543) |
| Contribution deficiency (excess) | $ (105,547) | $ (117,975) | $ (36,253) |
| Covered payroll | $ 2,867,993 | $ 2,711,945 | $ 2,995,198 |
| Contributions as a percentage of covered payroll | 12.00% | 13.15% | 11.94% |

**Notes to Schedule**

| | |
|---|---|
| Valuation Date: | 6/30/2018 |
| Discount Rate: | 7.28% |
| Salary Increases: | 3.25% |

*- Fiscal year 2018 was the 1st year of implementation, therefore only three years are shown.