

**GOLETA SANITARY DISTRICT**

**FINANCIAL STATEMENTS**

June 30, 2013

**GOLETA SANITARY DISTRICT**  
**TABLE OF CONTENTS**  
June 30, 2013

---

**FINANCIAL SECTION**

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

**BASIC FINANCIAL STATEMENTS**

Statement of Net Position..... 13  
Statement of Revenues, Expenses, and Changes  
in Net Position ..... 14  
Statement of Cash Flows ..... 15  
Notes to Basic Financial Statements ..... 17

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress for Post Employment Benefits  
Other than Pensions..... 31

**FINANCIAL SECTION**



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

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

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Goleta Sanitary District  
Goleta, California

### Report on the Financial Statements

We have audited the accompanying basic financial statements of the Goleta Sanitary District (District) as of and for the fiscal year ended June 30, 2013, and the related notes to the basic financial statements as listed in the table of contents. The financial statements as of June 30, 2012, were audited by other auditors, and whose report dated October 4, 2012 expressed an unqualified opinion on those financial statements.

#### *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, 2013, 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.

### ***Change in Accounting Principles***

As discussed in note 2 to the basic financial statements effective July 1, 2012, the Goleta Sanitary District adopted Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report October 4, 2013, on our consideration of the Goleta Sanitary District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Moss, Remy & Halgreen LLP*

Santa Maria, California  
October 4, 2013

## Management's Discussion and Analysis

As management of the Goleta Sanitary District, we offer readers of the Goleta Sanitary District's financial statements this narrative overview and analysis of the financial activities of the Goleta Sanitary District for the fiscal year ending June 30, 2013. We encourage readers to consider the information presented here in conjunction with the audit report.

### Financial Highlights

- The assets of the Goleta Sanitary District exceeded its liabilities by \$92,442,241 and \$86,238,027 at the close of the June 30, 2013 and 2012 fiscal year, respectively. Of this amount, \$9,264,888 and \$8,788,457 as of June 30, 2013 and 2012 respectively may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$6,204,214 and \$15,434,955 as of June 30, 2013 and 2012 respectively. This increase in net position is a combination of a \$2,245,189 and \$1,973,661<sup>1</sup> as of June 30, 2013 and 2012, respective gain from operating and non-operating revenues and expenses, a capital contribution to the District of \$3,959,025 and \$13,461,295<sup>2</sup> as of June 30, 2013 and 2012.
- The Goleta Sanitary District's State Revolving Loan debt decreased by \$140,060 (32.4%) and \$136,244 (23.9%) during June 30, 2013 and 2012 respectively. The key factor of the decrease was the annual principal payment.

### Overview of the Financial Statements

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

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

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

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

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Goleta Sanitary District, like other

---

<sup>1</sup> The value reported is net of connection fees of \$46,924 received in FY11-12. Connection fees are reported as contributed capital in this reporting period.

<sup>2</sup> The value reported includes connection fees of \$46,924 received in FY11-12.

state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The various funds are presented in the accompanying financial statements as a proprietary fund category, enterprise fund type.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 17-30 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Goleta Sanitary District's progress in funding its obligation to provide pension benefits to its employees.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Goleta Sanitary District, assets exceeded liabilities by \$92,442,241 and \$86,238,027 at the close of June 30, 2013 and 2012, respectively.

By far the largest portion of the Goleta Sanitary District's net position, \$82,133,852 (89 percent) and \$76,461,552 (89 percent) as of June 30, 2013 and 2012, respectively, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Goleta Sanitary District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Goleta Sanitary District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

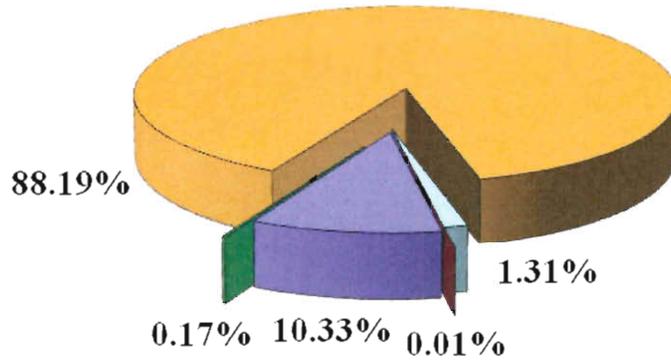
#### GOLETA SANITARY DISTRICT'S NET ASSETS

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current Assets	\$ 9,997,030	\$ 11,392,753	\$ 16,926,754
Noncurrent Assets	<u>83,469,347</u>	<u>77,881,624</u>	<u>55,082,513</u>
Total Assets	<u>\$ 93,466,377</u>	<u>\$ 89,274,377</u>	<u>\$ 72,009,267</u>
Current liabilities	\$ 627,261	\$ 2,550,223	\$ 774,142
Noncurrent Liabilities	<u>396,875</u>	<u>486,127</u>	<u>432,053</u>
Total Liabilities	<u>\$ 1,024,136</u>	<u>\$ 3,036,350</u>	<u>\$ 1,206,195</u>
Net Position:			
Net Investment in Capital Assets	\$ 82,133,852	\$ 76,461,552	\$ 52,583,978
Restricted	1,043,501	988,018	1,930,237
Unrestricted	<u>9,264,888</u>	<u>8,788,457</u>	<u>16,288,857</u>
Total Net Position	<u>\$ 92,442,241</u>	<u>\$ 86,238,027</u>	<u>\$ 70,803,072</u>

An additional portion of the Goleta Sanitary District's net position, \$1,043,501 (1.1%) and \$988,018 (1.15%) as of June 30, 2013 and 2012, respectively, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$9,264,888 and \$8,788,457 as of June 30, 2013 and 2012, respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

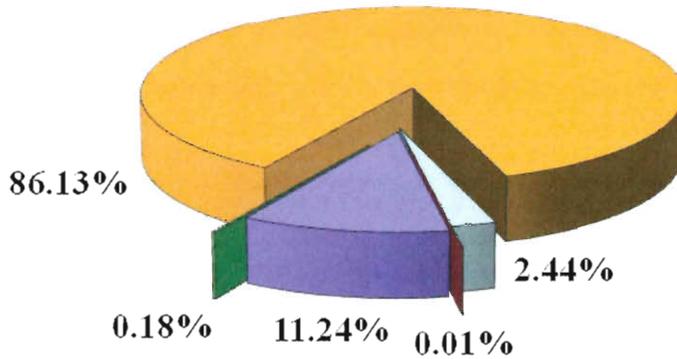
At the end of the current fiscal year, the Goleta Sanitary District is able to report positive balances in all three categories of net position. The same situation held true for the prior two fiscal years.

### ASSETS FY 12-13



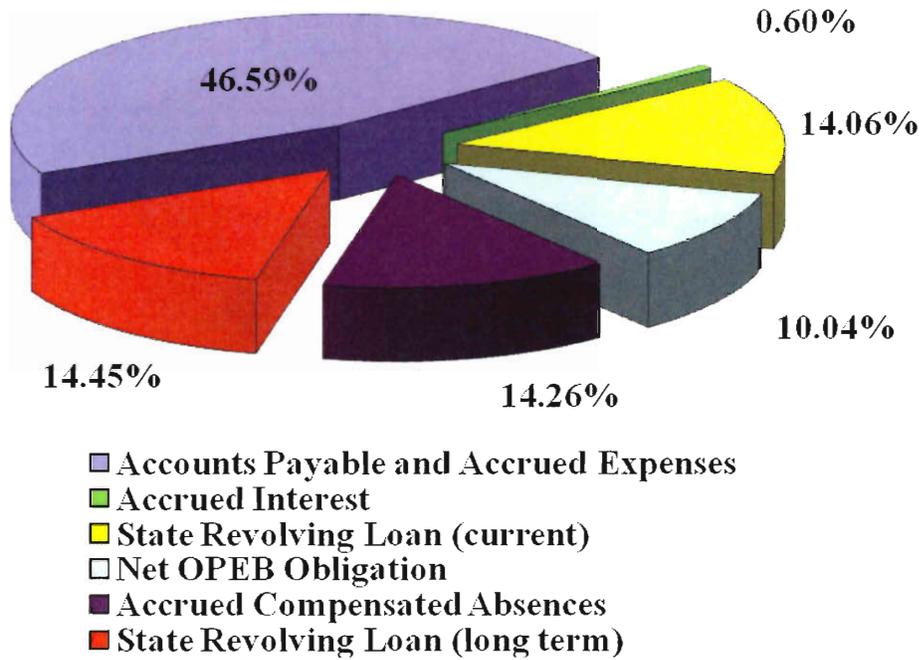
- Cash and Investments
- Prepaid Expenses and Inventory
- Capital Assets Less Dep.
- Accounts Receivable and Deposits A/R
- Accrued Interest

### ASSETS FY 11-12

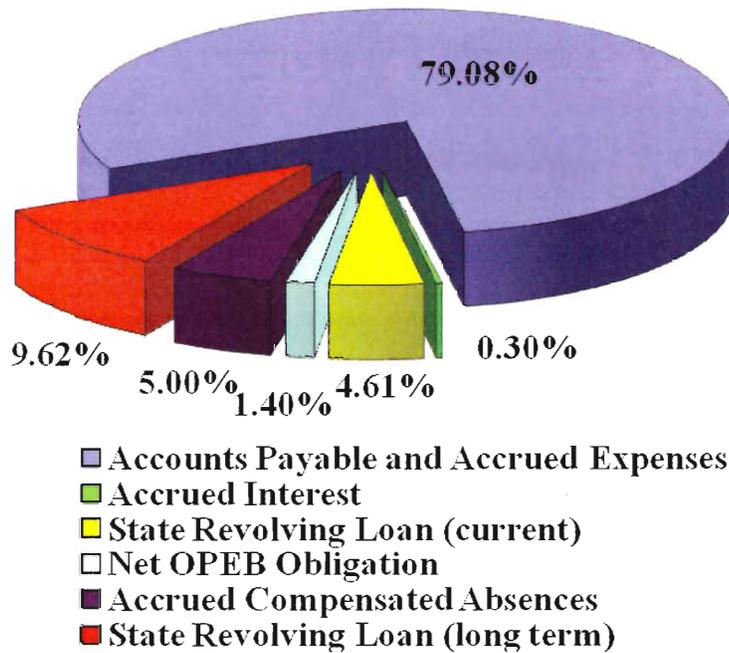


- Cash and Investments
- Prepaid Expenses and Inventory
- Capital Assets Less Dep.
- Accounts Receivable and Deposits A/R
- Accrued Interest

## LIABILITIES FY 12-13



## LIABILITIES FY 11-12



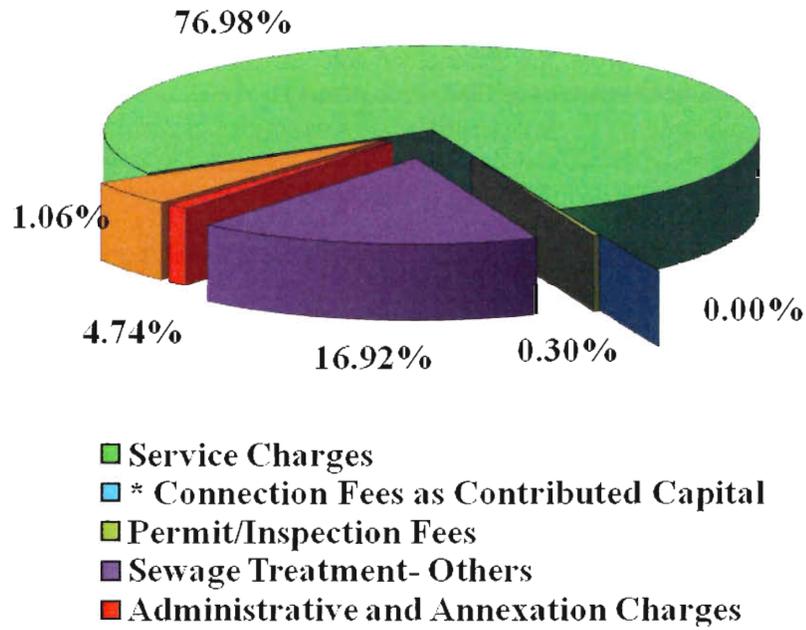
**Business-type activities.** The business-type activities increased the Goleta Sanitary District's net position by \$6,204,214 and \$15,434,955 as of June 30, 2013 and 2012, respectively. Key elements of this increase are as follows. Operating and non-operating revenues exceeded operating and non-operating expenses by \$2,245,189 and \$1,973,661<sup>3</sup> as of June 30, 2013 and 2012, respectively. Capital contributions to the District's system totaled \$3,959,025 and \$13,461,295 as of June 30, 2013 and 2012, respectively, as of June 30, 2013 for a net decrease of \$9,502,270 and an increase of \$11,314,937 as of June 30, 2012. Revenues exceeded expenses during the 2012-2013 fiscal year reflecting payments from the District contractual users for the plant upgrading project. Construction in progress value has been recorded as capitalized amounts.

#### GOLETA SANITARY DISTRICT'S CHANGE IN NET POSITION

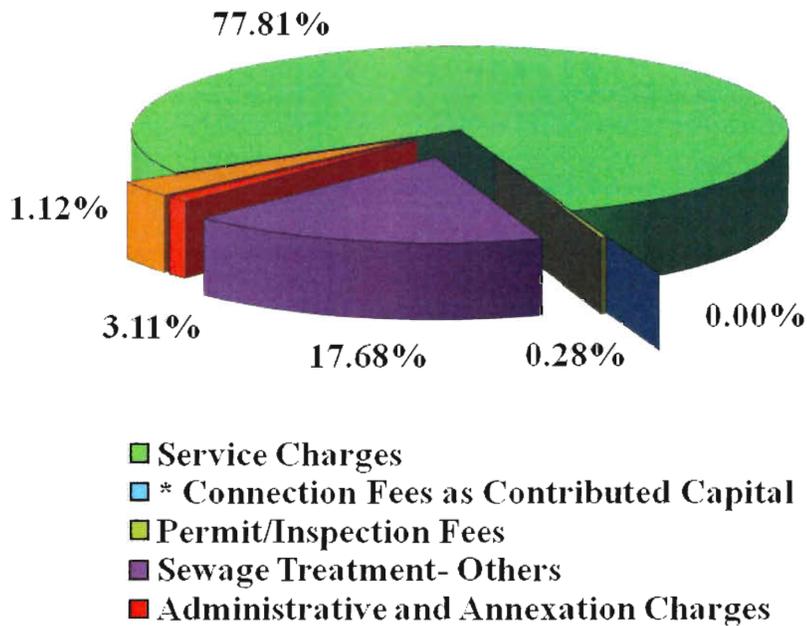
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Revenues:			
Service Charges	\$ 8,235,493	\$ 7,839,872	\$ 8,405,912
Other Operating	1,955,457	1,922,434	1,946,532
Capital Contributions	3,959,025	13,461,295	2,146,357
Non-operating	<u>506,935</u>	<u>312,955</u>	<u>1,851,372</u>
Total Revenues	<u>\$ 14,656,910</u>	<u>\$ 23,536,556</u>	<u>\$ 14,350,173</u>
Expenses:			
Sewer Collection	\$ 1,755,450	\$ 1,685,355	\$ 1,588,120
Sewage Treatment	4,611,198	4,300,343	4,367,716
Plant Pump Station	140,983	121,037	148,114
Sewage Disposal	114,896	108,339	108,860
Administrative	1,175,140	1,222,484	1,231,138
Wastewater Reclamation	<u>655,029</u>	<u>664,042</u>	<u>674,960</u>
Total Expenses	<u>\$ 8,452,696</u>	<u>\$ 8,101,600</u>	<u>\$ 8,118,908</u>
Increase in Net Position	\$ 6,204,214	\$ 15,434,955	\$ 6,231,265
Net Position – Beginning of Year	<u>86,238,027</u>	<u>70,803,072</u>	<u>64,571,807</u>
Net Position – End of Year	<u>\$ 92,442,241</u>	<u>\$ 86,238,027</u>	<u>\$ 70,803,072</u>

<sup>3</sup> The value reported is net of Connection Fees received in FY11-12 which are included in Capital Contributions in this report.

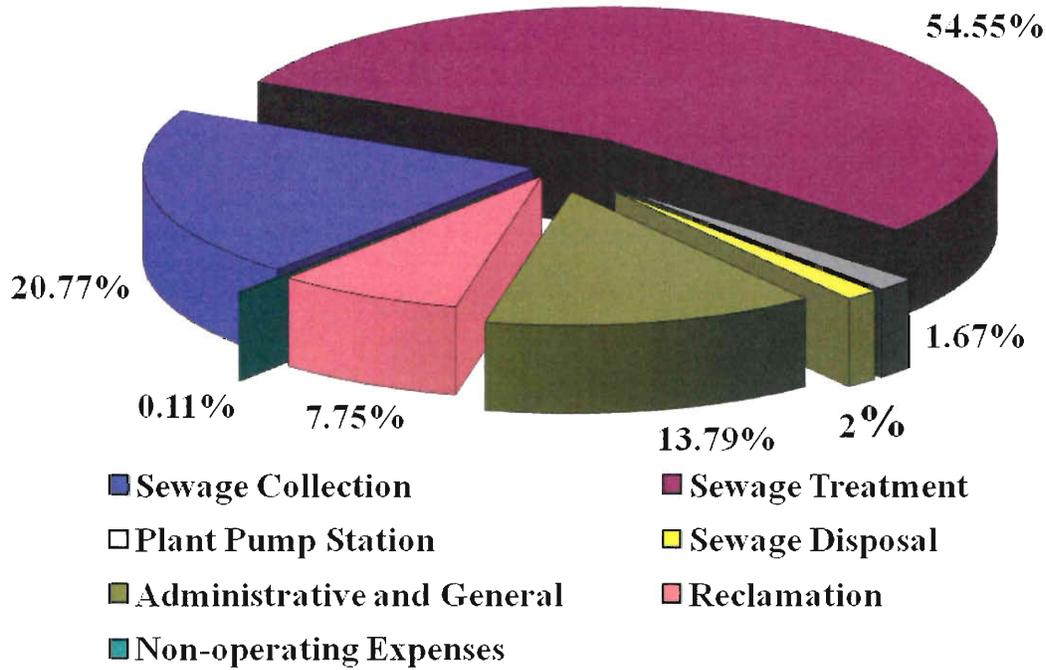
## REVENUES FY 12-13



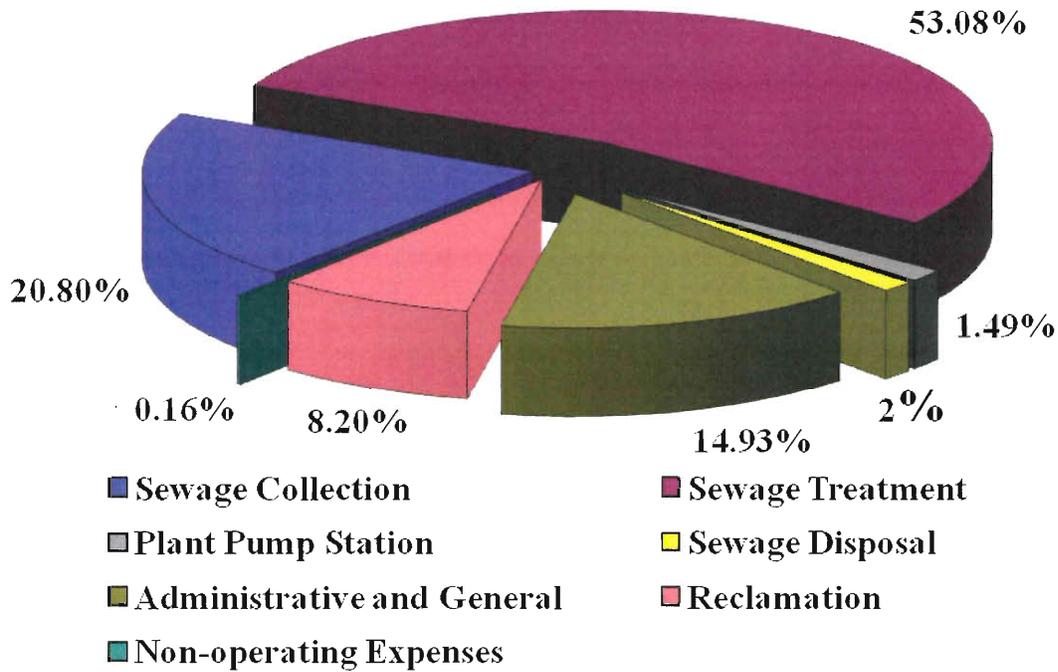
## REVENUES FY 11-12



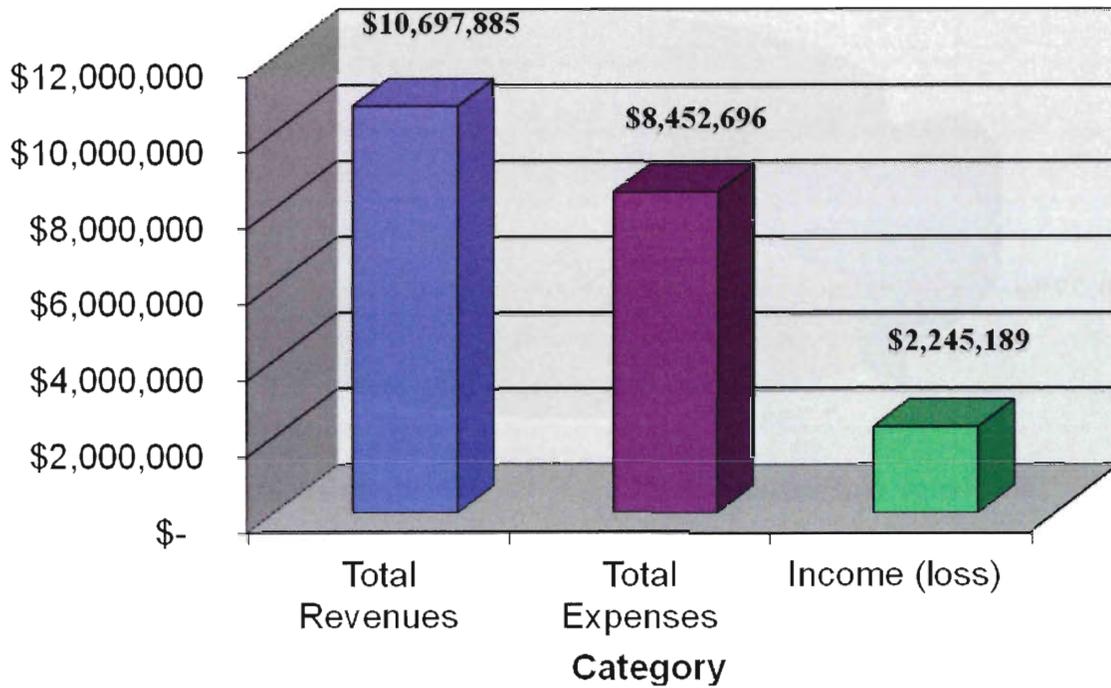
### EXPENSES FY 12-13



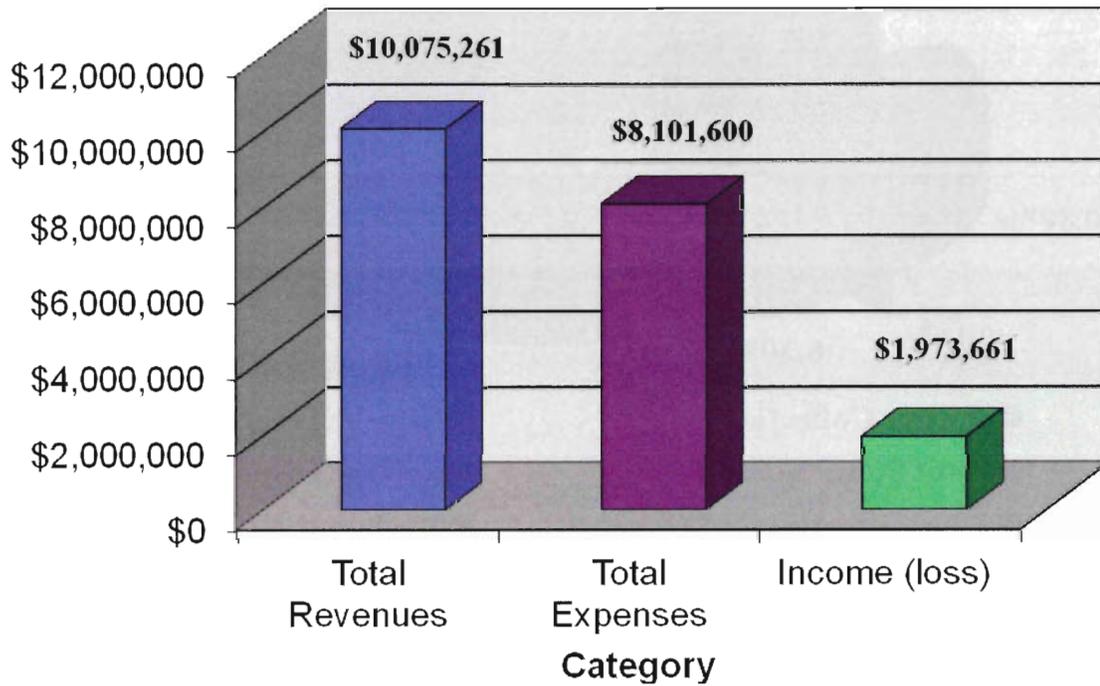
### EXPENSES FY 11-12



## REVENUES AND EXPENSES FY 12-13



## REVENUES AND EXPENSES FY 11-12



## 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, 2013 and June 30, 2012 amounts to \$82,425,846 and \$76,893,606 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. The total increase in the Goleta Sanitary District's investment in capital assets for the current fiscal year was 7.19%.

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

Construction in Progress  
 Treatment Plant Upgrade Project  
 Fairview Sewer Relocation  
 Turnpike Road Sewer Extension

### GOLETA SANITARY DISTRICT'S CAPITAL ASSETS

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Land	\$ 327,243	\$ 327,243	\$ 327,243
Construction in Progress	39,542,386	32,046,218	6,715,772
Collection Facilities	22,623,427	22,589,024	22,295,819
Treatment Facilities	33,928,059	33,846,131	33,674,222
Disposal Facilities	3,743,731	3,743,731	3,743,731
Admin Facilities	2,989,644	2,989,644	2,973,490
Wastewater Reclamation	<u>14,963,398</u>	<u>14,907,813</u>	<u>14,890,713</u>
Total	<u>\$ 118,117,888</u>	<u>\$ 110,449,804</u>	<u>\$ 84,620,990</u>
Less Accumulated Depreciation	<u>\$ (35,692,042)</u>	<u>\$ (33,556,198)</u>	<u>\$ (31,468,714)</u>
Net Capital Assets	<u>\$ 82,425,846</u>	<u>\$ 76,893,606</u>	<u>\$ 53,152,276</u>

Additional information on the Goleta Sanitary District's capital assets can be found in note 4 on page 24 of this report.

**Long-term debt.** At the end of June 30, 2013 and 2012, the Goleta Sanitary District had a total current and long-term debt of \$291,994 and \$432,054. This debt was incurred for the Outfall Reballasting project. The term of this loan runs through 2015. A portion of the annual debt payment is reimbursed by the District's contracted users, Santa Barbara County, Goleta West Sanitary District, Santa Barbara Municipal Airport, and the University of California, Santa Barbara. The District funds its portion of the annual payment from sewer service charges.

### GOLETA SANITARY DISTRICT'S OUTSTANDING DEBT

	<u>2013</u>	<u>2012</u>	<u>2011</u>
State Revolving Fund Loan	\$ 291,994	\$ 432,054	\$ 568,298
Total	<u>\$ 291,994</u>	<u>\$ 432,054</u>	<u>\$ 568,298</u>

The Goleta Sanitary District's total debt decreased by \$140,060 (32.4%), \$136,244 (23.9%), \$132,534 (18.9%), during June 30, 2013, 2012 and 2011, respectively. The key factor of the decrease was the annual principal payment on the District's only outstanding debt, the State Revolving Fund Loan.

Additional information on the Goleta Sanitary District's long-term debt can be found in note 5 on page 25 of this report.

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

The District reviewed its sewer service fees for 2012-2013 and determined that no increase was necessary to balance the budget and ensure that revenues would cover expenses. The District set its user rate schedule to accommodate the current annual contribution to its depreciation reserve fund and its estimated budget for fiscal year 2013-14. The rate includes \$11.31 per month per dwelling unit to finance the District's Plant Upgrading Project. An additional \$2.00 per month per ERU is also earmarked for funding other capital improvements at the District. This scenario has been the conventional approach to balancing the District's annual O&M needs inclusive of its depreciation funding. The 2013-14 single family dwelling monthly user charge is \$37.80 (\$24.92 for O&M, \$11.31 for the Plant Upgrading Project and \$2.00 for Capital Improvement Projects).

### **Other Post Employment Benefits**

The District provides other post employment benefits (OPEB) through the California Employers' Retiree Benefit fund which is administered by CalPERS. In 2008, the District joined the CalPERS medical program. An actuarial was performed in 2011-2012 fiscal year to determine the District's Annual Required Contribution (ARC) to the OPEB Fund in order to meet the obligation of providing the Retiree Medical Insurance. The actuarial report prepared during Fiscal Year 2011-2012 reported an ARC of \$237,238. The District paid \$131,915 to CERBT, towards the annual liability and paid a sum of \$44,890 to the retirees as reimbursement or directly to CalPERS for the Retiree health insurance coverage. A total of \$176,805 is credited towards the ARC for fiscal 2012-13 leaving a liability of \$102,823 of unpaid ARC at year end.

In addition the total Unfunded Actuarial Accrued liability as of 7/1/2011 is \$1,753,143 as defined by the actuarial analysis dated July 1, 2011.

### **Requests for Information**

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

**GOLETA SANITARY DISTRICT**  
**STATEMENT OF NET POSITION - ENTERPRISE FUND**  
 June 30, 2013  
 With Comparative Totals for June 30, 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
Current:		
Cash and investments	\$ 8,610,679	\$ 9,047,833
Receivables:		
Accounts	1,220,454	2,178,612
Accrued interest	4,370	5,642
Inventories	98,169	105,732
Prepaid expenses	63,358	54,934
	<u>9,997,030</u>	<u>11,392,753</u>
<b>Total Current Assets</b>		
Noncurrent:		
Restricted:		
Cash and investments	1,042,864	986,238
Accrued interest receivable	637	1,780
Capital assets - net	82,425,846	76,893,606
	<u>83,469,347</u>	<u>77,881,624</u>
<b>Total Noncurrent Assets</b>		
<b>Total Assets</b>	<u>93,466,377</u>	<u>89,274,377</u>
<b>Liabilities</b>		
Current:		
Accounts payable and accrued liabilities	477,148	2,401,090
Accrued interest	6,132	9,073
Loan payable, current portion	143,981	140,060
	<u>627,261</u>	<u>2,550,223</u>
<b>Total Current Liabilities</b>		
Noncurrent:		
Accrued compensation	146,039	151,743
Net OPEB obligation	102,823	42,390
Loan payable	148,013	291,994
	<u>396,875</u>	<u>486,127</u>
<b>Total Noncurrent Liabilities</b>		
<b>Total Liabilities</b>	<u>1,024,136</u>	<u>3,036,350</u>
<b>Net Position</b>		
Net investment in capital assets	82,133,852	76,461,552
Restricted	1,043,501	988,018
Unrestricted	9,264,888	8,788,457
	<u>92,442,241</u>	<u>86,238,027</u>
<b>Total Net Position</b>	<u>\$ 92,442,241</u>	<u>\$ 86,238,027</u>

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

**GOLETA SANITARY DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**ENTERPRISE FUND**  
For the Fiscal Year Ended June 30, 2013  
With Comparative Totals for the Fiscal Year Ended June 30, 2012

	<u>2013</u>	<u>2012</u>
<b>Operating Revenues:</b>		
Service charges	\$ 8,235,493	\$ 7,839,572
Permit and inspection fees	32,124	28,600
Sewage treatment-other agencies	1,809,961	1,781,539
Administrative charges	113,372	112,595
	<hr/>	<hr/>
Total operating revenues	10,190,950	9,762,306
	<hr/>	<hr/>
<b>Operating Expenses:</b>		
Sewage collection	1,755,450	1,685,355
Sewage treatment	4,611,198	4,300,343
Plant pump station	140,983	121,037
Sewage disposal	114,896	108,339
Administrative and general	1,165,984	1,209,433
Wastewater reclamation	655,029	664,042
	<hr/>	<hr/>
Total operating expenses	8,443,540	8,088,549
	<hr/>	<hr/>
Operating income (loss)	1,747,410	1,673,757
	<hr/>	<hr/>
<b>Nonoperating Revenues (Expenses):</b>		
Property tax	136,864	120,478
Grant	200,753	
Intergovernmental	818	
Investment earnings	15,420	48,638
Interest expense	(9,156)	(13,051)
Annexation charges	2,750	5,667
Reimbursements from participating agencies	70,906	70,739
Other	79,424	59,099
Gain (loss) on disposal of capital assets		8,334
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	497,779	299,904
	<hr/>	<hr/>
Income (loss) before capital contributions	2,245,189	1,973,661
	<hr/>	<hr/>
Capital contributions	3,959,025	13,461,294
	<hr/>	<hr/>
Change in net position	6,204,214	15,434,955
	<hr/>	<hr/>
Net position, beginning of fiscal year	86,238,027	70,803,072
	<hr/>	<hr/>
Net position, end of fiscal year	<u>\$ 92,442,241</u>	<u>\$ 86,238,027</u>

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

**GOLETA SANITARY DISTRICT**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUND**  
For the Fiscal Year Ended June 30, 2013  
With Comparative Totals for the Fiscal Year Ended June 30, 2012

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 11,149,108	\$ 9,826,871
Payments to suppliers	(4,261,748)	(375,271)
Payments to employees	(3,916,022)	(3,675,325)
	<u>2,971,338</u>	<u>5,776,275</u>
Net cash provided by operating activities		

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Property taxes	136,864	120,478
Grants	200,753	
Reimbursements from other governments	70,906	70,739
Annexation charges	2,750	5,667
Other revenue	79,424	59,099
	<u>490,697</u>	<u>255,983</u>
Net cash provided by noncapital financing activities		

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital contributions	3,959,025	13,461,294
Acquisition and construction of capital assets	(7,668,084)	(25,871,943)
Principal paid on long-term debt	(140,060)	(136,244)
Interest paid on long-term debt	(12,097)	(15,912)
Intergovernmental	818	
Proceeds from sales of capital assets		8,334
	<u>(3,860,398)</u>	<u>(12,554,471)</u>
Net cash used by capital and related financing activities		

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	17,835	61,599
	<u>17,835</u>	<u>61,599</u>
Net cash provided by investing activities		

Net (decrease) in cash and cash equivalents	(380,528)	(6,460,614)
Cash and cash equivalents, July 1	10,034,071	16,494,685
Cash and cash equivalents, June 30	<u>\$ 9,653,543</u>	<u>\$ 10,034,071</u>

**Reconciliation to Statement of Net Position:**

Cash and investments - cash equivalents	8,610,679	9,047,833
Restricted cash and investments - cash equivalents	1,042,864	986,238
	<u>\$ 9,653,543</u>	<u>\$ 10,034,071</u>

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

**GOLETA SANITARY DISTRICT**  
**STATEMENT OF CASH FLOWS - ENTERPRISE FUND**  
For the Fiscal Year Ended June 30, 2013  
With Comparative Totals for the Fiscal Year Ended June 30, 2012

**Reconciliation to reconcile operating income (loss) to net cash provided (used) by operating activities:**

Operating income (loss)	\$ 1,747,410	\$ 1,673,757
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,135,844	2,130,613
Change in net assets and liabilities:		
Accounts receivable	958,158	64,565
Inventory	7,563	(63,361)
Prepaid expenses	(8,424)	(16,720)
OPEB asset		18,161
Accounts payables	(1,923,942)	1,930,728
Net OPEB obligation	60,433	42,390
Compensated absences	(5,704)	(3,858)
	<hr/>	<hr/>
Net cash provided by operating activities	<u>\$ 2,971,338</u>	<u>\$ 5,776,275</u>

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

**NOTE 1 - REPORTING ENTITY**

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

The basic financial statements of the Goleta Sanitary District have been prepared in conformity with accounting principles generally accepted in the United States of America ("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. Also, the accounts have been maintained in accordance with the California State Controller's uniform system of accounts.

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

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

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

**B. Plant Capacity Rights**

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

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

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

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

**C. Budgetary Procedures**

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

**D. Deposits and Investments**

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

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

**E. Prepaid Costs**

Payments to vendors for services that will benefit periods beyond June 30, 2013, 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, 2013 and 2012 was \$146,039 and \$151,743, respectively. The full amount is shown as a noncurrent liability because it is not expected to be paid out within the next year.

**I. Restricted Assets**

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

**J. Capital Contributions**

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

**K. Uncollectible Accounts**

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

**L. Property Taxes**

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

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

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

The District does not receive a substantial amount of property taxes. For the fiscal year ended June 30, 2013 and 2012, the District received \$136,864 and \$120,478, respectively. The District does not receive property tax from every parcel in its service area, only those parcels for which the property taxes were negotiated at the time it was annexed.

**M. Use of Estimates**

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

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

**N. Net Position**

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

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

**O. New Accounting Pronouncements**

Governmental Accounting Standards Board Statement No. 60

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to Service Concession Arrangements. This Statement improves consistency in reporting and enhances the comparability of the accounting and financial reporting of Service Concession Arrangements among state and local governments. Implementation of the GASB Statement No. 60, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 61

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 61 "The Financial Reporting Entity: Omnibus." This statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for component units. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the reporting of equity interests in legally separate organizations. Implementation of the GASB Statement No. 61, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 62

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in *Pre-November 30, 1989* FASB and AICPA Pronouncements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Implementation of the GASB Statement No. 62, did not have an impact on the District's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 63

For the fiscal year ended June 30, 2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities should be displayed. This Statement also specifies how net position, no longer referred to as net assets, should be displayed. Implementation of the Statement and the impact of the District's financial statements are explained in Note 2 – N Net Position.

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

**P. Comparative Data/Totals Only**

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

**NOTE 3 - CASH AND INVESTMENTS**

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

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 136	\$ 112
Deposits with financial institutions	947,841	1,741,120
Investments	8,705,566	8,292,839
	<u>\$ 9,653,543</u>	<u>\$ 10,034,071</u>

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

	<u>2013</u>	<u>2012</u>
Cash and investments	\$ 8,610,679	\$ 9,047,833
Restricted cash and investments	1,042,864	986,238
Total cash and investments	<u>\$ 9,653,543</u>	<u>\$ 10,034,071</u>

**Investments Authorized by the District's Investment Policy**

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

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

**GOLETA SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 Fiscal Year Ended June 30, 2013

**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:

2013					
Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
State investment pool (LAIF)	\$ 8,705,566	\$ 8,705,566	\$ -	\$ -	\$ -
	<u>\$ 8,705,566</u>	<u>\$ 8,705,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2012					
Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13-24 Months	25-60 Months	More than 60 Months
State investment pool (LAIF)	\$ 8,292,839	\$ 8,292,839	\$ -	\$ -	\$ -
	<u>\$ 8,292,839</u>	<u>\$ 8,292,839</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

2013						
Investment Type	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End			
			AAA	A+	Baa	Not Rated
State investment pool (LAIF)	\$ 8,705,566	N/A	\$ -	\$ -	\$ -	\$ 8,705,566
	<u>\$ 8,705,566</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,705,566</u>
2012						
Investment Type	Carrying Amount	Minimum Legal Rating	Rating as of Fiscal Year End			
			AAA	A+	Baa	Not Rated
State investment pool (LAIF)	\$ 8,292,839	N/A	\$ -	\$ -	\$ -	\$ 8,292,839
	<u>\$ 8,292,839</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,292,839</u>

Custodial Credit Risk

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

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

Collateral for Deposits

The collateral for certificates of deposit is generally held in safekeeping by the Federal Home Loan Bank in San Francisco as the third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintain detailed records of the security pool which are coordinated and updated weekly.

The Treasurer, at his or her discretion, may waive the 110% collateral requirement for deposits. Deposit accounts are insured temporarily for an unlimited amount up to December 31, 2013, and up to at least \$250,000 afterwards.

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

Investment in State Investment Pool

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

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

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

**GOLETA SANITARY DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
Fiscal Year Ended June 30, 2013

**NOTE 4 - CAPITAL ASSETS**

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

	Balance July 1, 2012	Additions	Deletions	Transfers	Balance June 30, 2013
Capital assets not being depreciated:					
Land	\$ 327,243	\$ -	\$ -	\$ -	\$ 327,243
Construction in progress	32,046,218	7,496,168			39,542,386
Total capital assets not being depreciated	<u>\$ 32,373,461</u>	<u>\$ 7,496,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,869,629</u>
Capital assets being depreciated:					
Collection facilities	\$ 22,589,024	\$ 34,403	\$ -	\$ -	22,623,427
Treatment facilities	33,846,131	81,928			33,928,059
Disposal facilities	3,743,731				3,743,731
General administrative facilities	2,989,644				2,989,644
Wastewater reclamation facility	14,907,813	55,585			14,963,398
	<u>78,076,343</u>	<u>171,916</u>			<u>78,248,259</u>
Less accumulated depreciation	<u>33,556,198</u>	<u>2,135,844</u>			<u>35,692,042</u>
Total capital assets being depreciated, net	<u>\$ 44,520,145</u>	<u>\$ (1,963,928)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,556,217</u>
Net capital assets	<u>\$ 76,893,606</u>	<u>\$ 5,532,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,425,846</u>
	Balance July 1, 2011	Additions	Deletions	Transfers	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$ 327,243	\$ -	\$ -	\$ -	\$ 327,243
Construction in progress	6,715,772	25,366,107		(35,661)	32,046,218
Total capital assets not being depreciated	<u>\$ 7,043,015</u>	<u>\$ 25,366,107</u>	<u>\$ -</u>	<u>\$ (35,661)</u>	<u>\$ 32,373,461</u>
Capital assets being depreciated:					
Collection facilities	\$ 22,295,819	\$ 294,637	\$ 1,432	\$ -	22,589,024
Treatment facilities	33,674,222	183,745	47,497	35,661	33,846,131
Disposal facilities	3,743,731				3,743,731
General administrative facilities	2,973,490	19,761	3,607		2,989,644
Wastewater reclamation facility	14,890,713	17,100			14,907,813
	<u>77,577,975</u>	<u>515,243</u>	<u>52,536</u>	<u>35,661</u>	<u>78,076,343</u>
Less accumulated depreciation	<u>31,468,714</u>	<u>2,130,613</u>	<u>43,129</u>		<u>33,556,198</u>
Total capital assets being depreciated, net	<u>\$ 46,109,261</u>	<u>\$ (1,615,370)</u>	<u>\$ 9,407</u>	<u>\$ 35,661</u>	<u>\$ 44,520,145</u>
Net capital assets	<u>\$ 53,152,276</u>	<u>\$ 23,750,737</u>	<u>\$ 9,407</u>	<u>\$ -</u>	<u>\$ 76,893,606</u>

**NOTE 5 – LONG-TERM LIABILITIES**

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

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

The following table summarizes the changes in long-term liabilities for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
State revolving fund loan	\$ 568,298	\$ -	\$ 136,244	\$ 432,054	\$ 140,060
Compensated absences	155,601	151,743	155,601	151,743	
Other post employment benefits		42,390		42,390	
<b>Total long-term liabilities</b>	<b>\$ 723,899</b>	<b>\$ 194,133</b>	<b>\$ 291,845</b>	<b>\$ 626,187</b>	<b>\$ 140,060</b>

**State Revolving Fund Loan**

A \$2,279,438 California State Revolving Fund Loan was funded under the Clean Water Act by the United States Environmental Protection Agency. The loan funds were used to partially fund the outfall reballasting project completed in October 1994. The loan bears interest at the rate of 2.8 percent per annum.

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

Fiscal Year Ending	Principal	Interest	Total
2014	\$ 143,981	\$ 8,176	\$ 152,157
2015	148,013	4,144	152,157
	<u>\$ 291,994</u>	<u>\$ 12,320</u>	<u>\$ 304,314</u>

**Wastewater Treatment Plant Upgrade to Second Treatment Project**

In June 2012, the District entered into a State Revolving Fund Loan with the State of California under the Clean Water Act by the United States Environmental Protection Agency totaling \$12,520,448 for the Wastewater Treatment Plant Upgrade to Secondary Treatment Project. Principal payments ranging from \$390, 591 to \$830,791 commence on April 15, 2015 and are due annually. The loan bears interest at the rate of 2.6% per annum. At June 30, 2013, the District has not requested any draw downs.

## NOTE 6 – NET POSITION

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

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

The following is included in Restricted Net Position:

### Reserve for Plant Capacity Expansion

This reserve is related to that portion of the District's net assets attributable to capacity expansion connection fees. Such fees can only be used for plant expansion. At June 30, 2013 and 2012, this reserve was \$1,043,501 and \$988,018, respectively.

## NOTE 7 – RISK MANAGEMENT

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

### A. Description of Joint Powers Authority

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

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

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

#### *General Liability Insurance*

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

#### *Workers Compensation Insurance*

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

#### *Property Protection*

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

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

**NOTE 8 – DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute within the Public Employees’ Retirement Law. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

**B. Funding Policy**

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required to District employees on their behalf and for their account. The District is also required to make an additional contribution at an actuarially determined rate. This rate for the fiscal year ended June 30, 2013 and 2012 was 13.776% and 13.620%, respectively of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

**C. Annual Pension Cost**

For the fiscal year ended June 30, 2013 and 2012, the District’s annual pension cost was \$462,470 and \$434,830, respectively and was equal to the District’s required and actual contributions. The required contribution was determined as part of the new agency actuarial valuation as of June 30, 2010 and 2009, using the entry age normal actuarial cost method.

Fiscal Year	Three Year Trend Information for Cal PERS		
	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	\$ 412,654	100%	\$ -
6/30/2012	\$ 434,830	100%	\$ -
6/30/2013	\$ 462,470	100%	\$ -

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

**NOTE 9 – OTHER POST EMPLOYMENT BENEFITS**

**A. Plan Description**

The District provides other post employment benefits (OPEB) through the California Employers’ Retiree Benefit Fund (CERBT), an agent multiple-employer defined benefit healthcare plan administered by the California Public Employees’ Retirement System (CalPERS). Benefits are provided to employees who retire at age 50 or older with five years of eligible CalPERS service. Coverage is also provided to eligible retirees, spouses and surviving spouses. These benefits are provided per contract between the District and the employee associations. Separate financial statements of the CERBT may be obtained by writing to CalPERS at Lincoln Plaza North 400 Q Street, Sacramento, and CA 95814 or by visiting the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

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

**B. Funding Policy**

In 2009, the District joined the CalPERS medical program. In 2013, the District contributes the full cost of retiree and spousal coverage, up to the cost of PERS Choice coverage in comparison to the “unequal contribution” approach that was used at the inception of the CalPERS medical program. The District’s contribution will be based on each retiree’s age and enrollment status. The contribution requirements of plan members and the District are established and may be amended by the District and the employee associations. Currently, contributions are not required from plan members.

A contribution of \$176,805 was made during the 2012-2013 fiscal year. The District calculated and recorded a net OPEB obligation, representing the difference between the annual required contribution (ARC) and actual contributions, as presented on below:

	2013	2012
Annual required contribution (ARC)	\$ 237,443	\$ 229,054
Interest on net OPEB obligation	(1,382)	(1,382)
Adjustment to ARC	1,177	1,154
Annual OPEB cost	<u>237,238</u>	<u>228,826</u>
Contributions made	<u>(176,805)</u>	<u>(168,275)</u>
(Decrease) increase in net OPEB obligation	60,433	60,551
Net OPEB Obligation (asset) - Beginning of fiscal year	<u>42,390</u>	<u>(18,161)</u>
Net OPEB Obligation (asset) - end of fiscal year	<u>\$ 102,823</u>	<u>\$ 42,390</u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB (obligation) asset for 2012-2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2011	\$ 316,060	\$ 382,862	121%	\$ (18,161)
6/30/2012	\$ 228,826	\$ 168,275	74%	\$ 42,390
6/30/2013	\$ 237,238	\$ 176,805	75%	\$ 102,823

**C. Funded Status and Funding Progress**

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

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

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

**C. Funded Status and Funding Progress (Continued)**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2011, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 7.61%.

Investment rate of return, which is a blended rate of the expected long-term investment return on plan assets and on the employer's own investments calculated, based on the funded level of the plan at valuation date, and annual healthcare cost trend rate of 5.5% to 7.6%. The actuarial value of assets is set equal to the reported fair value of assets. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at June 30, 2012, was twenty-seven years. The number of active participants is 32.

**NOTE 10 – WASTEWATER RECLAMATION PROJECT**

The District entered into an agreement, dated October 15, 1990, with the Goleta Water District for construction and operation of a wastewater reclamation project. The project provides for additional treatment of the District's wastewater and to distribute the resulting reclaimed wastewater for use by the Goleta Water District's customers.

The District agreed to provide the additional treatment facilities, which are integrated into the current treatment plant. The Goleta Water District agreed to provide the pumping and distribution facilities for the delivery of the reclaimed water.

The District has provided the site for the Reclamation Facility. The Reclamation Facility is designed to have a treatment, storage, and pumping capacity of 3.3 million gallons per day.

The agreement with the Goleta Water District provides that the Goleta Water District ultimately pay all the costs associated with the design and construction of the project, as well as the operation costs once the facility is completed. The Goleta Water District has the right to the water produced, with certain options.

The project was substantially complete and officially placed in service in August 1994.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

**A. LAND PURCHASE RESTRICTIONS**

On December 23, 1980, the District acquired twenty-eight (28) acres of land adjacent to the original plant site for the construction of various structures, ponds and sludge lagoons for the plant expansion project. The acquisition is subject to the condition that should the District or its successors at any time within fifty-nine (59) years cease to use the land, as defined in the deed, for the operation of a wastewater treatment plant for a continuous period of one (1) year, and the land will revert to the seller or its successor, at the acquisition price.

**B. CALIFORNIA REGIONAL WATER QUALITY CONTROL BOARD – SECONDARY TREATMENT**

In November 2004, the District reached an agreement with the California Regional Water Quality Control Board on a 10 year conversion plan to convert its operations to comply with secondary treatment requirements set forth in 40 C.F.R. Part 133, other than 40 C.F.R. Part 133.105 (secondary treatment). Conversion to full secondary treatment requires a substantial commitment to capital assets over a 10 year period. According to the conversion schedule, the design and construction will occur between 2008 and 2014.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)**

**C. CONSTRUCTION COMMITMENTS**

The District had construction contract commitments at June 30, 2013 of \$936,225.

**REQUIRED SUPPLEMENTARY INFORMATION**

**GOLETA SANITARY DISTRICT**  
**SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS**  
**OTHER THAN PENSIONS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

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

**SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>	<u>Interest Rate</u>	<u>Salary Scale</u>
1/1/2010	\$ 272,130	\$2,773,266	\$ 2,501,136	11%	\$ 2,521,908	99%	7.75%	5%
7/1/2011	\$ 681,082	\$2,434,225	\$ 1,753,143	39%	\$ 2,610,175	67%	7.61%	5%