GOLETA WEST
SANITARY DISTRICT

June 30, 2012 and 2011

FINANCIAL STATEMENTS

BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

GOLETA WEST SANITARY DISTRICT

Table of Contents

BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Goleta West Sanitary District:

We have audited the accompanying basic financial statements of the Goleta West Sanitary District (the District) as of June 30, 2012 and 2011 and for the fiscal years then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 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 audits 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.

1123 Chapala Street · P.O. Box 90860 · Santa Barbara, CA 93190–0860 · Tel: (805) 963–7811 · Fax: (805) 564–2103 · Web: www.bpw.com

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The Supplemental Schedule of Operating Expenses for the year ended June 30, 2012 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Bartlett, Pringle & Wolf, LLP

Santa Barbara, California
October 19, 2012

Management's discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2012. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Balance Sheet
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

The balance sheet includes all the District's assets and liabilities, with the difference between the two reported as net assets. Net assets may be displayed in the categories:

- Invested in Capital Assets
- Restricted Net Assets
- Unrestricted Net Assets

The balance sheet provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net assets presents information which shows how the District's net assets changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net assets measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other changes.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operations
- Non-capital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net assets because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

During the year ended June 30, 2012, the District's total net assets increased by $ 1,069,000 (2.09%). The District's operating revenues increased by $26,644 (1.11%) and operating expenses decreased by $2,553 (0.06%). Non-operating income increased in the current year by $631,942 (27.42%).

Revenue Sources and Uses

The District's financial statements classify revenues as operating or non-operating revenues. Operating revenues are comprised primarily of sewer service charges. The current sewer service charge is $168 per year for a single family residence. Commercial users are charged according to prior years' water usage and the type of wastewater discharged. Non-operating revenues are comprised primarily from property tax revenue and investment income. The annual property tax revenues are predominately based on pre-Proposition 13 property tax allocation percentages. District revenues are deposited into various operating and reserve funds which are the sources for District expenditures. Operating revenues are used to cover all wastewater operation and maintenance expenses. Non-operating revenues are used to cover all other operation and maintenance expenditures which are not wastewater related (including street sweeping) and capital improvement projects. The following table provides information regarding the uses of operating revenues.

	June 30, 2012	June 30, 2011
Total operating revenues	$ 2,420,121	$ 2,393,477
Wastewater O&M expenses	3,798,217	3,715,984
Less: Depreciation and amortization	(1,369,442)	(1,204,239)
	2,428,775	2,511,745
Net wastewater operating loss	$ (8,654)	$ (118,268)

Financial Analysis of the Financial Statements

Net Assets

The District's net assets at June 30, 2012 totaled $ 52,201,537 compared to $ 51,132,537 at June 30, 2011. The increase in net assets can be attributed to an operating loss of $1,867,236, offset by non-operating income of $ 2,936,236 . The following is a summary of the District's balance sheet as of June 30, 2012 compared to June 30, 2011:

	June 30, 2012	June 30, 2011	Change
Assets:			
Current assets	$ 1,266,891	$ 2,784,600	$ (1,517,709)
Noncurrent assets:			
Unrestricted assets	2,300,978	898,067	1,402,911
Restricted assets	10,859,228	20,789,887	(9,930,659)
Dedicated assets	4,843,109	3,875,395	967,714
Capital assets	16,383,871	15,741,920	641,951
Capacity rights, net of amortization	18,420,737	8,578,350	9,842,387
Total Assets	$ 54,074,814	$ 52,668,219	$ 1,406,595
Liabilities:			
Current liabilities	$ 1,533,277	$ 1,115,682	$ 417,595
Long term liabilities	340,000	420,000	(80,000)
Total Liabilities	$ 1,873,277	$ 1,535,682	$ 337,595

	June 30, 2012	June 30, 2011	Change
Net Assets:			
Invested in capital assets and capacity rights	$ 34,804,608	$ 24,320,270	$ 10,484,338
Restricted	10,859,228	20,789,887	(9,930,659)
Unrestricted, dedicated	4,843,109	3,875,395	967,714
Unrestricted	1,694,592	2,146,985	(452,393)
Total Net Assets	$ 52,201,537	$ 51,132,537	$ 1,069,000

Financial Analysis of the Financial Statements (continued)

The following is a summary of the District's balance sheet as of June 30, 2011 compared to June 30, 2010:

	June 30, 2011	June 30, 2010	Change
Assets:			
Current assets	$ 2,784,600	$ 3,228,946	$ (444,346)
Noncurrent assets:			
Unrestricted assets	898,067	698,233	199,834
Restricted assets	20,789,887	22,440,426	(1,650,539)
Dedicated assets	3,875,395	2,830,275	1,045,120
Capital assets	15,741,920	15,316,817	425,103
Capacity rights, net of amortization	8,578,350	7,900,087	678,263
Total Assets	$ 52,668,219	$ 52,414,784	$ 253,435
Liabilities:			
Current liabilities	$ 1,115,682	$ 1,190,108	$ (74,426)
Long term liabilities	420,000	500,000	(80,000)
Total Liabilities	$ 1,535,682	$ 1,690,108	$ (154,426)

	June 30, 2011	June 30, 2010	Change
Net Assets:			
Invested in capital assets and capacity rights	$ 24,320,270	$ 23,216,904	$ 1,103,366
Restricted	20,789,887	22,440,426	(1,650,539)
Unrestricted, dedicated	3,875,395	2,830,275	1,045,120
Unrestricted	2,146,985	2,237,071	(90,086)
Total Net Assets	$ 51,132,537	$ 50,724,676	$ 407,861

Financial Analysis of the Financial Statements (continued)

The District reported a change in net assets of $ 1,069,000 for the year ended June 30, 2012, an increase of $ 661.139 when compared to the year ended June 30, 2011. The following is a summary of the District's statement of revenues, expenses and changes in net assets for the years ended June 30, 2012 and June 30, 2011:

	June 30, 2012	June 30, 2011	Change
Operating revenues	$ 2,420,121	$ 2,393,477	$ 26,644
Operating expenses	4,287,357	4,289,910	(2,553)
Total Operating Loss	(1,867,236)	(1,896,433)	29,197
Non-operating income	2,936,236	2,304,294	631,942
Change in Net Assets	1,069,000	407,861	661,139
Net Assets at Beginning of Year	51,132,537	50,724,676	407,861
Net Assets at End of Year	$ 52,201,537	$ 51,132,537	$ 1,069,000

The following is a summary of the District's statement of revenues, expenses and changes in net assets for the years ended June 30, 2011 and June 30, 2010:

	June 30, 2011	June 30, 2010	Change
Operating revenues	$ 2,393,477	$ 2,458,575	$ (65,098)
Operating expenses	4,289,910	4,478,630	(188,720)
Total Operating Loss	(1,896,433)	(2,020,055)	123,622
Non-operating income	2,304,294	2,742,024	(437,730)
Change in Net Assets	407,861	721,969	(314,108)
Net Assets at Beginning of Year	50,724,676	50,002,707	721,969
Net Assets at End of Year	$ 51,132,537	$ 50,724,676	$ 407,861

Operating revenues remained comparable between the fiscal years ended June 30, 2012 and June 30, 2011.

Financial Analysis of the Financial Statements (continued)

Operating expenses were also comparable overall between the fiscal years ended June 30, 2012 and June 30, 2011, as decreases in professional fees and contractual services were offset by increases in depreciation, amortization, and repairs and maintenance expenses. See supplemental schedule of operating expenses on page 28 of the financial statements for more detailed information.

Non-operating revenues increased during the year by $ 631,942 (27.42%) due to an increase in connection fees of approximately $520,000 and an increase in taxes and assessments of approximately $122,000.

Capital Assets

At June 30, 2012, the District had invested $26,947,299 in capital assets. This amount represents an increase of $305,644 (1.1%) over the prior year. The following is a summary of the capital assets at June 30, 2012 and 2011, respectively.

	June 30, 2012	June 30, 2011	Change
Structures and improvements	$ 53,859	$ 53,859	$ -
Infrastructure	23,638,572	23,374,614	263,958
Equipment	1,199,067	1,043,337	155,730
Office equipment & furniture	779,677	752,900	26,777
Construction in progress	1,276,124	1,416,945	(140,821)
Total Capital Assets	$ 26,947,299	$ 26,641,655	$ 305,644

The following is a summary of the capital assets at June 30, 2011 and 2010, respectively.

	June 30, 2011	June 30, 2010	Change
Structures and improvements	$ 53,859	$ 55,661	$ (1,802)
Infrastructure	23,374,614	21,854,662	1,519,952
Equipment	1,043,337	1,089,223	(45,886)
Office equipment & furniture	752,900	846,473	(93,573)
Construction in progress	1,416,945	2,035,341	(618,396)
Total Capital Assets	$ 26,641,655	$ 25,881,360	$ 760,295

Financial Analysis of the Financial Statements (continued)

Additions to the construction in progress account consisted primarily of costs related to the Ocean Meadows Golf Course Project ($431K), Embarcadero/Norte Project ($414K), and the Phelps/Mesa Road Project ($154K). Approximatel+y $1,200,000 in construction in progress was transferred to infrastructure due to the completion of the Ocean Meadows Golf Course and Embarcadero/Norte projects, as well as other minor capital projects. See Note 4 for additional details regarding capital asset activity.

Economic Factors and Budget

The Board of Directors has approved the budget for the 2012/2013 fiscal year. The budgeted operating expenses total $5,830,345, not including depreciation and amortization. The District has approved a capital budget for the upgrade and replacement of capital assets (including capacity rights) necessary for the collection and treatment of sewage in the amount of $4,835,000.

GOLETA WEST SANITARY DISTRICT
BALANCE SHEET
June 30, 2012 and 2011

ASSETS

		2012		2011
Current Assets:				
Cash and cash equivalents (note 2)	$	1,008,576	$	2,491,472
Interest receivable		80,595		115,796
Proposition 1A receivable		132,676		132,676
Other current assets		45,044		44,656
Total current assets		1,266,891		2,784,600
Restricted Assets:				
Investments, restricted (note 5)		10,859,228		20,789,887
Total restricted assets		10,859,228		20,789,887
Long-term Assets:				
Investments, unrestricted		1,790,768		387,857
Investments, dedicated (note 5)		4,843,109		3,875,395
Prepaid other post employement benefits (note 8)		510,210		510,210
Capital assets, net of depreciation (note 4)		15,107,747		14,324,975
Construction in progress (note 4)		1,276,124		1,416,945
Capacity rights, net of amortization (note 3)		18,420,737		8,578,350
Total long-term assets		41,948,695		29,093,732
Total assets	$	54,074,814	$	52,668,219

See accompanying notes

GOLETA WEST SANITARY DISTRICT
BALANCE SHEET
June 30, 2012 and 2011

LIABILITIES AND NET ASSETS

	2012	2011
Current Liabilities:		
Accounts payable	$ 1,123,668	$ 727,118
Customer deposits	111,375	111,375
Compensated absences	298,234	277,189
Total current liabilities	1,533,277	1,115,682
Long Term Liabilities:		
Environmental clean up obligation (note 12)	340,000	420,000
Total long term liabilities	340,000	420,000
Total liabilities	1,873,277	1,535,682
Net Assets (notes 1 and 5):		
Invested in capital assets and capacity rights	34,804,608	24,320,270
Restricted	10,859,228	20,789,887
Unrestricted, dedicated	4,843,109	3,875,395
Unrestricted	1,694,592	2,146,985
Total net assets	52,201,537	51,132,537
Total liabilities and net assets	$ 54,074,814	$ 52,668,219

See accompanying notes

GOLETA WEST SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the years ended June 30, 2012 and 2011

	2012	2011
Operating Revenues:		
Service charges	$ 2,282,940	$ 2,299,610
Permits, annexation, plan check and inspection fees	67,675	37,353
Other operating revenue	69,506	56,514
Total operating revenues	2,420,121	2,393,477
Operating Expenses:		
Sewage collection	1,319,453	1,277,686
Sewage treatment	1,878,568	1,872,149
General and administrative	600,196	566,149
Other operating expenses	489,140	573,926
Total operating expenses	4,287,357	4,289,910
Operating loss	(1,867,236)	(1,896,433)
Nonoperating Revenue (Expense):		
Taxes and assessments	1,795,431	1,672,988
Loss on disposal of assets	(36,078)	(14,406)
Connection fees	671,820	151,820
Investment income	505,063	493,892
Total non-operating revenue (expense)	2,936,236	2,304,294
Change in net assets	1,069,000	407,861
Net assets at beginning of year	51,132,537	50,724,676
Net assets at end of year	$ 52,201,537	$ 51,132,537

See accompanying notes

GOLETA WEST SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the years ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Cash received from customers	$ 2,420,121	$ 2,393,477
Cash payments to suppliers for goods and services	(2,159,025)	(2,275,959)
Cash payments to employees for services	(890,696)	(895,656)
Net cash used by operating activities	(629,600)	(778,138)
Cash Flows from Noncapital Financing Activities		
Cash received for taxes and assessments	1,795,431	1,672,988
Net cash provided by noncapital financing activities	1,795,431	1,672,988
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(975,779)	(1,212,891)
Cost related to capacity rights	(10,465,066)	(1,183,398)
Proceeds from sale of capital assets	20,000	3,138
Proceeds from connection fees	671,820	151,820
Net cash used by capital and related financing activities	(10,749,025)	(2,241,331)
Cash Flows from Investing Activities:		
Purchase of investments and securities	(15,676,166)	(18,840,372)
Proceeds from sales of investments and securities	23,338,408	19,126,749
Investment income received	438,056	664,089
Net cash provided by investing activities	8,100,298	950,466
Net decrease in cash	(1,482,896)	(396,015)
Cash – beginning of year	2,491,472	2,887,487
Cash – end of year	$ 1,008,576	$ 2,491,472

See accompanying notes

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

Operations

The Goleta West Sanitary District (the District) is a special district in Santa Barbara County, California. It was formed to provide wastewater disposal and street cleaning services to those properties within its boundaries.

While the District does not operate its own wastewater treatment plant, Goleta West Sanitary District has capacity rights to 40.78% of the total capacity of the Goleta treatment plant under an agreement dated January 13, 1956.

Basis of Accounting and Measurement Focus

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 private business enterprise, where the intent of the District is that the costs, including depreciation, of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. These financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when they are incurred. An enterprise fund is accounted for on the "flow of economic resources" measurement focus. This means that all assets and liabilities, whether current or long term, are included on the balance sheet.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and the producing and delivering of goods in connection with the District's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial statements of the District have been prepared in conformity with Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting financial reporting principles. Additionally the District applies all Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARBs) issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Budget

The District prepares an annual budget which estimates major sources of revenue, expense and additions to or uses of reserves. The budget is filed with Santa Barbara County (the County). The Board of Directors has the power to amend the budget during the year.

Cash

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments with an original maturity of three months or less, including restricted cash, and not subject to early withdrawal penalties, to be cash equivalents.

Note 1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

Investments

Investments are reported at fair value based on quoted market prices.

Capital Assets

Capital assets purchased by the District are recorded at cost. Donated assets are recorded at estimated fair market value as of the date of acquisition. The District depreciates its fixed assets by the straight-line method over periods of 3 to 75 years, depending on the estimated useful life of the asset.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds.

Net assets are reported as restricted when they are legally restricted by outside parties for use for a specific purpose. Dedicated net assets are unrestricted net assets the District records to recognize that certain portions are segregated for specific future uses. Unrestricted net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." When an expense is incurred for purposes for which both unrestricted and restricted assets are available, it is the District's policy to apply restricted assets first.

Revenue Recognition – Property Taxes and Services Charges

Property taxes and user sewer service charges are collected on the tax rolls of the County of Santa Barbara. The District receives an allocation of general property taxes. Sewer service charges are based upon the total number of equivalent residential units (ERU's) connected to the sewers of the District. Commercial properties are charged based upon loading factors and water consumption. Single family dwellings are charged one ERU unless there is a separate living quarter with a separate kitchen, in which case the charge is two ERU's. Multi-unit dwellings are charged one ERU per living quarter. The property taxes and service charges are recognized when they have been collected by the County and are available for distribution to the District.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Significant estimates used in preparing these financial statements include useful lives of capitalized assets, net asset dedications, and the liability for postretirement healthcare benefits. It is at least reasonably possible that the significant estimates used will change within the next year.

Note 1 - Reporting Entity and Summary of Significant Accounting Policies (Continued)

Government Accounting Standards Board Statement No.45

In the fiscal year ended June 30, 2009, the District implemented Government Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension."

This Statement requires that the District account for, and report, the annual cost of other postemployment benefits (OPEB) and the outstanding obligations and commitments related to OPEB in the same manner as it currently does for pensions. The Statement does not require that the District fund their OPEB plans, only that it accounts for them and reports them. OPEB generally consists of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including their beneficiaries in some cases. The District's OPEB plan is administered by the California Employers' Retiree Benefit Trust (CERBT) Program and consists of a postretirement medical program for retired members and their eligible dependents. See Note 8 for further details.

Note 2 - Cash and Investments

Cash and investments are classified in the accompanying financial statements at fair value, respectively at June 30, 2012 and 2011 as follows:

	2012	2011
Petty cash	$ 210	$ 210
Deposits with financial institutions	869,195	2,071,712
Cash held in investment account	139,171	419,550
Total cash and equivalents	1,008,576	2,491,472
Investments, non-cash equivalents	17,493,105	25,053,139
Total cash and investments	$ 18,501,681	$ 27,544,611

Custodial Credit Risk

Deposits are exposed to custodial credit risks if they are uninsured and uncollateralized. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District and are held by either the counter-party or the counter-party's trust department or agent but not in the District's name.

All cash and investments are entirely insured or collateralized. The California Government Code requires California banks and savings and loans associations to secure the District's deposits by pledging government securities, which equal at least 110% of the District's deposits. California law also permits financial institutions to secure District's deposits by

Note 2 - **Cash and Investments (Continued)**

Custodial Credit Risk (Continued)

the pledging of first trust deed mortgage notes in excess of 150% of the District's deposits. The District may waive collateral requirements for deposits that are fully insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC).

All of the District's investments are held in the name of the District with the District's custodial bank or by the District's counterparty's trust department.

Investments Authorized by the District's Investment Policy

The District's investment policy is to invest funds in a manner which will provide maximum security while meeting the daily cash flow demands of the District, earning the highest investment return and conforming to all statutes governing the investment of District funds. The table below identifies the investment types that are authorized by the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment One Issuer
U.S. and State of California Treasury Obligations	5 years	None	None
State of California Agency Obligations, including pooled investment accounts by State or Local Agencies	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Banker's Acceptances	270 days	40%	30%
Commercial Paper	270 days	25%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	5 years	None	5%
Corporate and Depository Institution Debt Securities	5 years	30%	5%
Money Market Mutual Funds	N/A	20%	5%
Mortgage Securities	5 Years	30%	5%

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.

Note 2 - Cash and Investments (Continued)

As of June 30, 2012, the District had the following investments:

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	6 Months or Less	7-12 Months	13-36 Months	More than 36 Months
US Treasury Note	$ 6,240,929	$ -	$ 220,559	$ 2,358,211	$ 3,662,159
Federal Home Loan Mortgage Co	2,090,013	-	814,680	196,468	1,078,865
Federal National Mortgage Assoc	2,185,015	425,289	-	432,767	1,326,959
Corporate bonds	4,900,997	-	456,480	3,948,423	496,094
Municipal bonds	200,076	-	-	-	200,076
Certificates of Deposit	1,876,075	-	626,044	1,250,031	-
Total	$17,493,105	$ 425,289	$2,117,763	$ 8,185,900	$ 6,764,153

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuation

The District did not have any investments considered to be highly sensitive to interest rate fluctuations at June 30, 2012.

Concentration of Credit Risk

The investment policy of the District limits the investment in securities of any non-governmental issuer to 5% of the District's portfolio, however at June 30, 2012, there was an investment in a medium term corporate bond with JP Morgan Chase for $1,006,290 which represented more than 5% of the District's total investments.

Credit Risk

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

			Rating as of Fiscal Year End			
	Carrying Amount	Minimum Rating	AAA	AA	A	Not Rated
US Treasury Note	$ 6,240,929 *	N/A	$ -	$ 6,240,929	$ -	$ -
Federal Home Loan Mortgage Co	2,090,013	N/A	-	2,090,013	-	-
Federal National Mortgage Assoc	2,185,015	N/A	-	2,185,015	-	-
Corporate bonds	4,900,997	A	-	2,049,924	2,851,073	-
Municipal bonds	200,076	N/A	200,076			
Certificates of Deposit	1,876,075	A	-	625,032	1,251,043	-
Total	$ 17,493,105		$ 200,076	$ 13,190,913	$ 4,102,116	$ -

* Exempt from Disclosure

Note 3 - Capacity Rights

The District has capacity rights to 40.78% of the total capacity of the Goleta treatment plant operated by Goleta Sanitary District. As part of the agreement on capacity rights, Goleta West Sanitary District pays for 40.78% of any capital improvements to the treatment plant, 35% of any outfall improvements and a share of the operating expenses based on flow actually utilized.

Amounts paid to Goleta Sanitary District for capital improvements are considered to be an intangible asset and are amortized over a five to forty year time period based on the estimated useful life of the capital improvement.

The following is a summary of changes in intangible assets as of June 30, 2012:

	Balance June 30, 2011	Additions	Disposals	Transfers	Balance June 30, 2012
Capacity rights	$ 15,015,063	$ 10,465,066	$ (325,389)	$ -	$ 25,154,740
Accumulated amortization	(6,436,713)	(622,679)	325,389	-	(6,734,003)
Net capacity rights	$ 8,578,350	$ 9,842,387	$ -	$ -	$ 18,420,737

The following is a summary of changes in intangible assets as of June 30, 2011:

	Balance June 30, 2010	Additions	Disposals	Transfers	Balance June 30, 2011
Capacity rights	13,944,447	$ 1,183,398	$ (112,782)	$ -	$ 15,015,063
Accumulated amortization	(6,044,360)	(505,135)	112,782	-	(6,436,713)
Net capacity rights	$ 7,900,087	$ 678,263	$ -	$ -	$ 8,578,350

Note 4 - Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Disposals	Transfers	Balance June 30, 2012
Structures and improvements	$ 53,859	$ -	$ -	$ -	$ 53,859
Infrastructure	23,374,614	-	(933,521)	1,197,479	23,638,572
Equipment	1,043,337	349,347	(193,617)	-	1,199,067
Office equipment & furniture	752,900	42,469	(15,692)	-	779,677
Construction in progress	1,416,945	1,056,658	-	(1,197,479)	1,276,124
Capital assets	26,641,655	1,448,474	(1,142,830)	-	26,947,299
Accumulated depreciation	(10,899,735)	(750,146)	1,086,452	-	(10,563,428)
Net capital assets	$ 15,741,920	$ 698,328	$ (56,378)	$ -	$ 16,383,871

The following is a summary of changes in capital assets for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Disposals	Transfers	Balance June 30, 2011
Structures and improvements	$ 55,661	$ -	$ (6,180)	$ 4,378	$ 53,859
Infrastructure	21,854,662	-	(179,296)	1,699,248	23,374,614
Equipment	1,089,223	61,597	(107,483)	-	1,043,337
Office equipment & furniture	846,473	-	(93,573)	-	752,900
Construction in progress	2,035,341	1,085,230	-	(1,703,626)	1,416,945
Capital assets	25,881,360	1,146,827	(386,532)	-	26,641,655
Accumulated depreciation	(10,564,543)	(704,179)	368,987	-	(10,899,735)
Net capital assets	$ 15,316,817	$ 442,648	$ (17,545)	$ -	$ 15,741,920

Note 5 - Net Assets

Net assets consist of the following at June 30, 2012 and 2011:

	2012	2011
Invested in capital assets and capacity rights	$ 34,804,608	$ 24,320,270
Restricted net assets:		
Capacity fees for collection system/plant reserve (Fund 4932)	2,796,583	543,208
For Devereux Creek Project reserve (Fund 4933)	-	2,496,539
Capital and treatment plant upgrade reserve (Fund 4935)	8,062,645	17,750,140
Total restricted net assets	10,859,228	20,789,887
Dedicated by Board of Directors:		
Property tax reserve (Fund 4910)	2,993,338	1,784,860
Equipment/vehicle replacement reserve (Fund 4960)	361,326	610,058
Building replacement reserve (Fund 4965)	1,488,445	1,480,477
Total dedicated net assets	4,843,109	3,875,395
Unrestricted net assets	1,694,592	2,146,985
Total net assets	$ 52,201,537	$ 51,132,537

Note 6 - Pension Plan

Goleta West Sanitary District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS 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 the state statute. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

As of June 30, 2012, participants are required to contribute 7% of their annual covered salary. The employees contribute 3.5% of their salary for the first five years. The District makes the remaining contributions required of District employees on their behalf and for their account. In addition, the District is required to contribute at an actuarially determined rate; the current rate was 6.276% for the year ended June 30, 2012, of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

Note 6 - Pension Plan (Continued)

Annual Pension Cost

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	18 Years as of the Valuation Date
Asset Valuation Method	15 year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Three-Year Trend Information for PERS

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/10	24,926	100%	-
06/30/11	27,911	100%	-
06/30/12	32,673	100%	-

Required Supplementary Information

The schedule for funding progress below represents the recent history of the risk pool's actuarial value of assets accrued liability, their relationship, and the relationship of the unfunded liability.

Note 6 - Pension Plan (Continued)

Valuation Date	(A) Accrued Liability	(B) Actuarial Value of Assets	(C) Unfunded Liability (A) - (B)	(D) Funded Ratio (B)/(A)	(E) Annual Covered Payroll	(F) UL as a % of Payroll (C)/(E)
06/30/08	2,780,280,768	2,547,323,278	232,957,490	91.6%	688,606,681	33.8%
06/30/09	3,104,798,222	2,758,511,101	346,287,121	88.8%	742,981,488	46.6%
06/30/10	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%

Note 7 - Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

As a result of legislative changes, all amounts of compensation deferred, all property and the rights purchased, and all income, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries, whereas, prior to these legislative changes, these amounts were solely the property rights of the District subject only to the claims of the District's general creditors.

As of June 30, 2012, four employees were participating in the plan.

Note 8 - Post-employment Health Care Benefits

Plan Description

The District provides retiree medical and prescription drug coverage to current and future eligible retirees and their dependents. Under the Plan, retired employees who attain age 50 with at least five years of service are eligible to receive benefits. The District pays a monthly premium for the health insurance benefits up to a maximum amount equal to the Blue Shield HMO Family Rate for the "Other Southern California" region. The spouse of an eligible retiree is also eligible to receive benefits from this plan, and benefits continue for the lifetime of the spouse.

The Plan is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (PERS), which acts as a common investment and administrative agent for participating public employers within the State of California.

Note 8 - Post-employment Health Care Benefits (Continued)

Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

The District is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The actuarial accrued liability was funded in full based on the July 1, 2007 valuation performed by an independent actuarial valuation firm.

Annual OPEB Cost

For the fiscal year ending June 30, 2012, the District's annual OPEB cost (expense) of $0 for the Plan was equal to the ARC. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012 and the two preceding years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net OPEB Asset
06/30/10	-	100%	510,210
06/30/11	-	100%	510,210
06/30/12	-	100%	510,210

Funded Status and Funding Progress

The schedule of funding progress presented below presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Valuation Date	(A) Actuarial Accrued Liability	(B) Actuarial Value of Assets	(C) Under/ (Over)funded (A) - (B)	(D) Funded Ratio (B)/(A)
07/01/07	1,215,099	1,215,099	-	100.0%
07/01/09	750,326	1,208,994	(458,668)	161.1%
06/30/11	944,722	1,338,568	(393,846)	141.7%

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 employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Note 8 - Post-employment Health Care Benefits (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	06/30/11
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amorization Period	Open 30 Years as of the Valuation Date
Asset Valuation Method	15 year Smoothed Market
Actuarial Assumptions	
Discount	7.61
Inflation	3.25
Payroll Growth	3.25%
Medical Trend	4% per year

Effective July 1, 2001 the District adopted Financial Accounting Standards Board Statement No 106 (FASB 106) to account for its share of the costs of those benefits. Under that Statement, the District's share of the estimated costs that will be paid after retirement was being accrued by charges to expense over the employees' active service periods to the dates they were fully eligible for benefits. As of July 1, 2005 the District suspended accruing for postretirement health care benefits under FASB 106, pending the implementation of GASB 45. The liability accrued under FASB 106 was $637,000 at that time. Upon implementation of GASB 45 in the 08/09 fiscal year, this liability was eliminated, as the District fully funded the Plan. The Prepaid Other Post Employment Benefits account was also reduced by this amount to account for the estimated OPEB expenses that were attributable to prior years.

Note 9 - Supplemental Schedule Statement of Cash Flows

Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:

	2012	2011
Operating loss	$ (1,867,236)	$ (1,896,433)
Adjustments to reconcile the operating loss to net cash used by operating activities:		
Depreciation and amortization	1,372,825	1,209,314
Changes in operating assets and liabilities		
Other current assets	(388)	(2,658)
Accounts payable	(75,846)	(42,198)
Compensated absences	21,045	33,837
Environmental clean up obligation	(80,000)	(80,000)
Net cash used by operating activities	$ (629,600)	$ (778,138)

Note 10 - Property Tax Calendar

Taxes, including homeowners' property tax relief, are remitted from the County Tax Collector. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1	
Levy Date	July 1 to June 30	
Due Date	November 1	(1st installment)
	March 1	(2nd installment)
Delinquent Date	December 11	(1st installment)
	April 11	(2nd installment)

Under California Law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the District based on complex formulas prescribed by the state statutes.

Note 11 - Conditional Annexation Fees

The District annexed 208 acres of the Dos Pueblos Partners Golf Course in 1993. Annexation fees were paid on 10 acres. The balance of the annexation fees on 198 acres was $396,000 in 1993 and would currently be approximately $695,000. These fees were waived on the following conditions:

- the golf course remains public
- no construction of additional residences nor condominiums

Note 12 - Environmental Cleanup Costs

The District discovered that its underground fuel storage tanks had leaked petroleum distillates thereby contaminating the ground surrounding the tanks, and possibly contaminating certain underground water supplies. The District has estimated the total future costs of remediation as of June 30, 2012 to be approximately $340,000 which has been accrued as a liability on the balance sheet. The ultimate cost of remediation is dependent on the scope of the contamination as well as developing remediation technology. Total costs incurred as of June 30, 2012 were $1,100,766.

Note 13 - Commitments

Goleta Sanitary District Plant Upgrade

The District, in cooperation with other public agencies, has executed the third amendment to the 1960 agreement with Goleta Sanitary District relative to upgrading the Goleta Sanitary District treatment plant to a full secondary treatment level. The District has agreed to pay 40.78% of total construction costs for the upgrade of approximately $38 million. The District's portion of the total costs is estimated to be $15.5 million. The District's portion of costs incurred as of the date of these financial statements was approximately $13.2 million.

Note 14 - Subsequent Events

Subsequent events have been evaluated through October 19, 2012, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

GOLETA WEST SANITARY DISTRICT

Schedule of Operating Expenses

For the Year Ended June 30, 2012 with Comparative Totals for the Year Ended June 30, 2011

	Sewage Collection	Sewage Treatment	Other Operating Expenses	Administration and General	2012	2011
Salaries and wages	$ 265,415	$ -	$ 119,602	$ 282,359	$ 667,376	$ 685,640
Employee benefits	95,329	-	29,440	119,208	243,977	241,195
Contract services	38,477	1,182,756	99,874	19,680	1,340,787	1,431,203
Professional and other services	785	-	123,515	101,324	225,624	337,916
Utilities	69,923	-	19,139	5,653	94,715	97,272
Printing and publications	-	-	189	4,399	4,588	4,371
Insurance	37,463	-	5,105	10,280	52,848	42,030
Office expense	-	-	-	1,096	1,096	1,086
Operating supplies	1,039	-	-	-	1,039	1,174
Gas, oil and fuel	11,870	-	8,260	2,310	22,440	19,506
Repairs and maintenance	67,479	-	49,409	1,958	118,846	82,122
Training	6,562	-	230	4,330	11,122	8,266
Travel and meetings	-	-	-	4,397	4,397	1,364
Rents and leases	-	-	-	280	280	236
Memberships	941	-	800	14,408	16,149	14,784
Permits and licenses	4,533	-	-	1,711	6,244	3,477
Administration fees	-	67,650	22,440	-	90,090	102,852
Miscellaneous	-	-	7,754	5,160	12,914	6,102
Amortization	-	622,679	-	-	622,679	505,135
Depreciation	719,637	5,483	3,383	21,643	750,146	704,179
Totals, June 30, 2012	$ 1,319,453	$ 1,878,568	$ 489,140	$ 600,196	$ 4,287,357	
Totals, June 30, 2011	$ 1,277,686	$ 1,872,149	$ 573,926	$ 566,149		$ 4,289,910