

GOLETA WEST SANITARY DISTRICT

June 30, 2009 and 2008

FINANCIAL STATEMENTS



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

GOLETA WEST SANITARY DISTRICT

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	2 - 7
Balance Sheet	8 - 9
Statement of Revenues, Expenses and Changes in Net Assets	10
Statement of Cash Flows	11
Notes to Financial Statements	12 - 25
Supplemental Information	26

GOLETA WEST SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2009. 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

GOLETA WEST SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2009, the District's total net assets increased by \$1,131,953 (or 2.3%). The District's operating revenues increased by \$4,903 (or .2%) and operating expenses increased by \$631,551 (or 15.0%). Non-operating income decreased in the current year by \$647,065 (or 15.9%).

Financial Analysis of the Financial Statements

Net Assets

The District's net assets at June 30, 2009 totaled \$ 50,002,707 compared to \$ 48,870,754 at June 30, 2008. The increase in net assets can be attributed to an operating loss of \$2,281,412 offset by non-operating income of \$3,413,365. The following is a summary of the District's balance sheet as of June 30, 2009 compared to June 30, 2008:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Change</u>
<u>Assets:</u>			
Current assets	\$ 1,672,535	\$ 2,278,021	\$ (605,486)
Noncurrent assets:			
Unrestricted assets	2,270,644	2,392,593	(121,949)
Restricted assets	23,713,907	21,081,585	2,632,322
Dedicated assets	2,693,667	3,903,377	(1,209,710)
Capital assets	14,173,573	14,428,529	(254,956)
Capacity rights, net of amortization	6,966,174	6,439,573	526,601
Total Assets	<u>\$ 51,490,500</u>	<u>\$ 50,523,678</u>	<u>\$ 966,822</u>
<u>Liabilities:</u>			
Current liabilities	\$ 1,037,793	\$ 639,924	\$ 397,869
Long term liabilities	450,000	1,013,000	(563,000)
Total Liabilities	<u>\$ 1,487,793</u>	<u>\$ 1,652,924</u>	<u>\$ (165,131)</u>

**GOLETA WEST SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Financial Statements (continued)

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Change</u>
<u>Net Assets:</u>			
Invested in capital assets and capacity rights	\$ 21,139,747	\$ 20,868,102	\$ 271,645
Restricted	23,713,907	21,081,585	2,632,322
Unrestricted, dedicated	2,693,667	3,903,377	(1,209,710)
Unrestricted	2,455,386	3,017,690	(562,304)
Total Net Assets	<u>\$ 50,002,707</u>	<u>\$ 48,870,754</u>	<u>\$ 1,131,953</u>

The following is a summary of the District's balance sheet as of June 30, 2008 compared to June 30, 2007:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Change</u>
<u>Assets:</u>			
Current assets	\$ 2,278,021	\$ 1,897,583	\$ 380,438
Noncurrent assets:			
Unrestricted assets	2,392,593	2,494,217	(101,624)
Restricted assets	21,081,585	19,884,435	1,197,150
Dedicated assets	3,903,377	2,735,383	1,167,994
Capital assets	14,428,529	13,864,624	563,905
Capacity rights, net of amortization	6,439,573	6,682,204	(242,631)
Total Assets	<u>\$ 50,523,678</u>	<u>\$ 47,558,446</u>	<u>\$ 2,965,232</u>
<u>Liabilities:</u>			
Current liabilities	\$ 639,924	\$ 456,358	\$ 183,566
Long term liabilities	1,013,000	637,000	376,000
Total Liabilities	<u>\$ 1,652,924</u>	<u>\$ 1,093,358</u>	<u>\$ 559,566</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Change</u>
<u>Net Assets:</u>			
Invested in capital assets and capacity rights	\$ 20,868,102	\$ 20,546,828	\$ 321,274
Restricted	21,081,585	19,884,435	1,197,150
Unrestricted, dedicated	3,903,377	2,735,383	1,167,994
Unrestricted	3,017,690	3,298,442	(280,752)
Total Net Assets	<u>\$ 48,870,754</u>	<u>\$ 46,465,088</u>	<u>\$ 2,405,666</u>

GOLETA WEST SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The District reported a change in net assets of \$1,131,953 for the year ended June 30, 2009, a decrease of \$1,273,713 when compared to the year ended June 30, 2008. The following is a summary of the District's statement of revenues, expenses and changes in net assets for the years ended June 30, 2009 and June 30, 2008:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Change</u>
Operating revenues	\$ 2,556,772	\$ 2,551,869	\$ 4,903
Operating expenses	4,838,184	4,206,633	631,551
Total Operating Loss	<u>(2,281,412)</u>	<u>(1,654,764)</u>	<u>(626,648)</u>
Non-operating income	<u>3,413,365</u>	<u>4,060,430</u>	<u>(647,065)</u>
Change in Net Assets	1,131,953	2,405,666	(1,273,713)
Net Assets at Beginning of Year	<u>48,870,754</u>	<u>46,465,088</u>	<u>2,405,666</u>
Net Assets at End of Year	<u>\$ 50,002,707</u>	<u>\$ 48,870,754</u>	<u>\$ 1,131,953</u>

The following is a summary of the District's statement of revenues, expenses and changes in net assets for the years ended June 30, 2008 and June 30, 2007:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Change</u>
Operating revenues	\$ 2,551,869	\$ 2,365,895	\$ 185,974
Operating expenses	4,206,633	3,768,757	437,876
Total Operating Loss	<u>(1,654,764)</u>	<u>(1,402,862)</u>	<u>(251,902)</u>
Non-operating income	<u>4,060,430</u>	<u>3,104,436</u>	<u>955,994</u>
Change in Net Assets	2,405,666	1,701,574	704,092
Net Assets at Beginning of Year	<u>46,465,088</u>	<u>44,763,514</u>	<u>1,701,574</u>
Net Assets at End of Year	<u>\$ 48,870,754</u>	<u>\$ 46,465,088</u>	<u>\$ 2,405,666</u>

Operating revenues remained consistent between the fiscal years ended June 30, 2009 and June 30, 2008.

**GOLETA WEST SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis of the Financial Statements (continued)

Operating expenses increased by \$ 631,551 (or 15.01%). This increase is due to increased legal fees of approximately \$388,000 primarily related to the Detachment Proposal from the City of Goleta, increases in treatment expenses paid to Goleta Sanitary District of approximately \$121,800, increases in depreciation and amortization expense of approximately \$182,000, and increases in salaries and employee benefits of approximately \$136,000. The increase in salaries and benefits was a result of an increase in the vacation and sick pay accrual for certain employees who reached required length of service milestones, and directors' fees being reclassified to salary expenses for the entire fiscal year. This increase was partially offset by decreases in costs associated with removal and clean-up of the underground storage tanks. See supplemental schedule of operating expenses on page 26 of the financial statements for more detailed information.

Non-operating revenues decreased during the year by \$ 647,065 (or 15.94%) primarily as a result of the following items: Connection fees decreased by approximately \$773,000, which was partially offset by there being no losses on the disposal of capital assets in the current year compared to a loss of approximately \$119,000 in the prior year.

Capital Assets

At June 30, 2009, the District had invested \$24,706,268 in capital assets. This amount represents an increase of \$472,267 (or 1.9%) over the prior year. The following is a summary of the capital assets at June 30, 2009 and 2008, respectively.

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Change</u>
Structures and improvements	\$ 194,465	\$ 194,465	\$ -
Infrastructure	22,065,797	21,619,658	446,139
Equipment	1,057,141	1,024,649	32,492
Office equipment & furniture	895,422	895,745	(323)
Construction in progress	493,443	499,484	(6,041)
Total Capital Assets	<u>\$ 24,706,268</u>	<u>\$ 24,234,001</u>	<u>\$ 472,267</u>

The following is a summary of the capital assets at June 30, 2008 and 2007, respectively.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Change</u>
Structures and improvements	\$ 194,465	\$ 197,965	\$ (3,500)
Infrastructure	21,619,658	17,879,424	3,740,234
Equipment	1,024,649	1,041,203	(16,554)
Office equipment & furniture	895,745	889,295	6,450
Construction in progress	499,484	3,119,255	(2,619,771)
Total Capital Assets	<u>\$ 24,234,001</u>	<u>\$ 23,127,142</u>	<u>\$ 1,106,859</u>

**GOLETA WEST SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Approximately \$446,000 in construction in progress was transferred to infrastructure due to the completion of the Hollister Interceptor Replacement Project. Additions to the construction in progress account consisted primarily of costs related to the SCADA System Project and the Devereux Creek Project as well as projects related to the Main Trunk Replacement Project.

Economic Factors and Budget

The Board of Directors has approved the budget for the 2009/2010 fiscal year. The budgeted operating expenses total \$2,521,874. The District has approved a capital budget for the upgrade and replacement capital assets (including capacity rights) necessary for the collection and treatment of sewage in the amount of \$7,998,193.

**GOLETA WEST SANITARY DISTRICT
BALANCE SHEET
June 30, 2009 and 2008**

<u>ASSETS</u>		
	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash and cash equivalents (note 2)	\$ 1,413,877	\$ 1,940,448
Interest receivable	257,418	336,333
Other current assets	1,240	1,240
Total current assets	<u>1,672,535</u>	<u>2,278,021</u>
Restricted Assets:		
Cash equivalents, restricted	-	2,476,023
Investments, restricted	<u>23,713,907</u>	<u>18,605,562</u>
Total restricted assets (note 5)	23,713,907	21,081,585
Long-term Assets:		
Investments, unrestricted	1,760,434	2,392,593
Investments, dedicated (note 5)	2,693,667	3,903,377
Prepaid other post employment benefits (note 8)	510,210	-
Capital assets, net of depreciation (note 4)	13,680,131	13,929,045
Construction in progress (note 4)	493,442	499,484
Capacity rights, net of amortization (note 3)	<u>6,966,174</u>	<u>6,439,573</u>
Total long-term assets	<u>26,104,058</u>	<u>27,164,072</u>
Total assets	<u>\$ 51,490,500</u>	<u>\$ 50,523,678</u>

See accompanying notes

GOLETA WEST SANITARY DISTRICT
BALANCE SHEET
June 30, 2009 and 2008

LIABILITIES AND NET ASSETS

	2009	2008
Current Liabilities:		
Accounts payable	\$ 683,066	\$ 345,509
Customer deposits	111,375	111,375
Compensated absences	243,352	183,040
Total current liabilities	1,037,793	639,924
Long Term Liabilities:		
Environmental clean up obligation	450,000	376,000
Postretirement health benefit obligation	-	637,000
Total long term liabilities	450,000	1,013,000
Total liabilities	1,487,793	1,652,924
Net Assets (note 1 and 5):		
Invested in capital assets and capacity rights	21,139,747	20,868,102
Restricted	23,713,907	21,081,585
Unrestricted, dedicated	2,693,667	3,903,377
Unrestricted	2,455,386	3,017,690
Total net assets	50,002,707	48,870,754
Total liabilities and net assets	\$ 51,490,500	\$ 50,523,678

See accompanying notes

GOLETA WEST SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Service charges	\$ 2,414,001	\$ 2,301,036
Permits, annexation, plan check and inspection fees	19,685	16,120
Other operating revenue	123,086	234,713
	<u>2,556,772</u>	<u>2,551,869</u>
Total operating revenues		
Operating Expenses:		
Sewage collection	1,243,850	1,605,444
Sewage treatment	1,819,467	1,648,110
General and administrative	897,334	687,730
Other operating expenses	877,533	265,349
	<u>4,838,184</u>	<u>4,206,633</u>
Total operating expenses		
Operating loss	<u>(2,281,412)</u>	<u>(1,654,764)</u>
Nonoperating Revenue (Expense):		
Taxes and assessments	1,673,950	1,632,934
Connection fees	16,476	789,336
Investment income	1,722,939	1,756,892
Gain (Loss) on disposal of assets	-	(118,732)
	<u>3,413,365</u>	<u>4,060,430</u>
Total non-operating revenue		
Change in net assets	1,131,953	2,405,666
Net assets at beginning of year	<u>48,870,754</u>	<u>46,465,088</u>
Net assets at end of year	<u>\$ 50,002,707</u>	<u>\$ 48,870,754</u>

See accompanying notes

GOLETA WEST SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 2,556,772	\$ 2,536,619
Cash payments to suppliers for goods and services	(2,244,639)	(1,889,838)
Cash payments to employees for services	(862,414)	(732,766)
Cash payments for prepaid other post employment benefits	<u>(1,215,099)</u>	<u>-</u>
Net cash used by operating activities	<u>(1,765,380)</u>	<u>(85,985)</u>
Cash Flows from Noncapital Financing Activities		
Cash received for taxes and assessments	<u>1,673,950</u>	<u>1,632,934</u>
Net cash provided by noncapital financing activities	<u>1,673,950</u>	<u>1,632,934</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of property, equipment and intangibles	(472,590)	(1,266,861)
Cost related to capacity rights	(990,428)	(185,857)
Proceeds from sale of capital assets	-	3,500
Proceeds from connection fees	<u>16,476</u>	<u>789,336</u>
Net cash used by capital and related financing activities	<u>(1,446,542)</u>	<u>(659,882)</u>
Cash Flows from Investing Activities:		
Purchases of investments and securities	(26,644,678)	(30,620,194)
Proceeds from sales of investments and securities	23,954,262	31,224,535
Investment income received	<u>1,225,794</u>	<u>1,306,979</u>
Net cash provided (used) by investing activities	<u>(1,464,622)</u>	<u>1,911,320</u>
Net increase (decrease) in cash and restricted cash	(3,002,594)	2,798,387
Cash and restricted cash – beginning of year	<u>4,416,471</u>	<u>1,618,084</u>
Cash and restricted cash – end of year	<u>\$ 1,413,877</u>	<u>\$ 4,416,471</u>

See accompanying notes

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

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. The accounts are maintained and 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 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 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.

Investments

Investments for the District are reported at fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

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 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.

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

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

Government Accounting Standards Board Statement No.45

For 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, 2009 and 2008 as follows:

	2009	2008
Petty cash	\$ 210	\$ 210
Deposits with financial institutions	476,531	1,730,449
Cash held in investment account	937,136	209,789
Investments, cash equivalents	-	2,476,023
Total cash and equivalents	1,413,877	4,416,471
Investments, non-cash equivalents	28,168,008	24,901,532
Total cash and investments	\$ 29,581,885	\$ 29,318,003

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

**GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment One Issuer</u>
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	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	5 years	None	None
Corporate and Depository Institution Debt Securities	5 years	30%	None
Money Market Mutual Funds	N/A	20%	None
Mortgage Securities	5 Years	30%	None

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.

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash and Investments (Continued)

As of June 30, 2009, the District had the following investments:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>6 Months or Less</u>	<u>7-12 Months</u>	<u>13-36 Months</u>	<u>More than 36 Months</u>
US Treasury Note	\$ 6,017,544	\$ -	\$ -	\$ 4,514,731	\$ 1,502,813
Federal Home Loan Bank	6,980,059	1,002,190	365,641	5,612,228	-
Federal Home Loan Mortgage Co	3,604,772	274,304	562,859	2,767,609	-
Federal National Mortgage Assoc	2,891,025	-	-	2,891,025	-
Federal Farm Credit Bank	524,375	-	-	524,375	-
Muni Bond; State of California	437,202	-	437,202	-	-
Corporate bonds	7,713,031	-	1,513,765	4,453,843	1,745,423
Total	\$28,168,008	\$ 1,276,494	\$2,879,467	\$20,763,811	\$3,248,236

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, 2009.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the District's total investments are as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Issuer</u>
Corporate bonds	\$ 1,524,720	General Electric Cap Corp

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.

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash and Investments (Continued)

Credit Risk (Continued)

	Carrying Amount	Minimum Rating	Rating as of Fiscal Year End			
			AAA	AA	A	Not Rated
US Treasury Note	\$ 6,017,544 *	N/A	\$ -			\$ 6,017,544
Federal Home Loan Bank	6,980,059	N/A	6,980,059			
Federal Home Loan Mortgage Co	3,604,772	N/A	3,604,772			
Federal National Mortgage Assoc	2,891,025	N/A	2,891,025			
Federal Farm Credit Bank	524,375	N/A	524,375			
Muni Bond; State of California 2008	437,202	A	-		437,202	
Corporate bonds	7,713,031	A	2,419,423	3,270,143	2,023,465	
Total	\$ 28,168,008		\$ 16,419,654	\$ 3,270,143	\$ 2,460,667	\$ 6,017,544

* 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, 2009:

	Balance				Balance June 30, 2009
	June 30, 2008	Additions	Disposals	Transfers	
Capacity rights	\$ 11,677,189	\$ 990,428	\$ (31,128)	\$ -	\$ 12,636,489
Accumulated amortization	(5,237,616)	(463,827)	31,128	-	(5,670,315)
Net capacity rights	\$ 6,439,573	\$ 526,601	\$ -	\$ -	\$ 6,966,174

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 3 - Capacity Rights (Continued)

The following is a summary of changes in intangible assets as of June 30, 2008:

	Balance June 30, 2007	Additions	Disposals	Transfers	Balance June 30, 2008
Capacity rights	11,988,552	\$ 185,857	\$ (497,220)	\$ -	\$ 11,677,189
Accumulated amortization	(5,306,348)	(428,488)	497,220	-	(5,237,616)
Net capacity rights	<u>\$ 6,682,204</u>	<u>\$ (242,631)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,439,573</u>

Note 4 - Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Disposals	Transfers	Balance June 30, 2009
Structures and improvements	\$ 194,465	\$ -	\$ -	\$ -	\$ 194,465
Infrastructure	21,619,658	-	-	446,139	22,065,797
Equipment	1,024,649	32,492	-	-	1,057,141
Office equipment & furniture	895,745	-	(323)	-	895,422
Construction in progress	499,484	440,098	-	(446,139)	493,443
Capital assets	24,234,001	472,590	(323)	-	24,706,268
Accumulated depreciation	(9,805,472)	(727,546)	323	-	(10,532,695)
Net capital assets	<u>\$ 14,428,529</u>	<u>\$ (254,956)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,173,573</u>

The following is a summary of changes in capital assets for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Disposals	Transfers	Balance June 30, 2008
Structures and improvements	\$ 197,965	\$ -	\$ (3,500)	\$ -	\$ 194,465
Infrastructure	17,879,424	41,248	-	3,698,986	21,619,658
Equipment	1,041,203	61,536	(34,274)	(43,816)	1,024,649
Office equipment & furniture	889,295	-	-	6,450	895,745
Construction in progress	3,119,255	1,167,785	(125,936)	(3,661,620)	499,484
Capital assets	23,127,142	1,270,569	(163,710)	-	24,234,001
Accumulated depreciation	(9,262,518)	(580,725)	37,771	-	(9,805,472)
Net capital assets	<u>\$ 13,864,624</u>	<u>\$ 689,844</u>	<u>\$ (125,939)</u>	<u>\$ -</u>	<u>\$ 14,428,529</u>

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 5 - Net Assets

	2009	2008
Invested in capital assets and capacity rights	\$ 21,139,747	\$ 20,868,102
Restricted net assets:		
Reserved for underground storage tanks (Fund 4920)	-	617,575
Capacity fees for collection system/plant reserve (Fund 4932)	2,484,871	2,457,860
For Devereux Creek Project reserve (Fund 4933)	2,514,872	2,414,618
Capital and treatment plant upgrade reserve (Fund 4935)	18,714,164	9,856,378
For pump station replacement (Fund 4940)	-	5,735,154
Total restricted net assets	23,713,907	21,081,585
Dedicated by Board of Directors:		
Property tax reserve (Fund 4910)	688,882	2,250,765
Reserved for street sweeper replacement (Fund 4955)	-	165,301
Equipment/vehicle replacement reserve (Fund 4960)	603,193	75,755
Building replacement reserve (Fund 4965)	1,401,592	1,127,537
Reserved for vactor replacement (Fund 4970)	-	284,019
Total dedicated net assets	2,693,667	3,903,377
Unrestricted net assets	2,455,386	3,017,690
Total net assets	\$ 50,002,707	\$ 48,870,754

The District restructured their reserve accounts during the current fiscal year. Those accounts with no amounts at year end were either eliminated or consolidated with other reserve accounts.

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, 2009, 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

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 6 - Pension Plan (Continued)

Funding Policy (Continued)

rate; the current rate was 4.717% for the year ended June 30, 2009, of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Cost

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

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	16 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	3.25% 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

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
06/30/07	14,993	100%	-
06/30/08	20,177	100%	-
06/30/09	21,818	100%	-

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 6 - Pension Plan (Continued)

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.

	(A)	(B)	(C)	(D)	(E)	(F)
		Actuarial	Unfunded	Funded	Annual	UL as a
Valuation	Accrued	Value of	Liability	Ratio	Covered	% of
Date	Liability	Assets	(A) - (B)	(B)/(A)	Payroll	Payroll
						(C)/(E)
06/30/05	2,891,460,651	2,588,713,000	302,747,651	89.5%	755,046,679	40.1%
06/30/06	2,754,396,608	2,492,226,176	262,170,432	90.5%	699,897,835	37.5%
06/30/07	2,611,746,790	2,391,434,447	220,312,343	91.6%	665,522,859	33.1%

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, 2009, 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 up to \$1,226 of the health insurance benefits' monthly premium. 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.

**GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS**

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.

Annual OPEB Cost

For the fiscal year ending June 30, 2009, the District's annual OPEB cost (expense) of \$112,732 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 2009 and the two preceding years were as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
06/30/07	*	*	*
06/30/08	*	*	*
06/30/09	112,732	1118%	510,210

* The information for the two preceding years is unavailable. GASB 45 was implemented in fiscal year 2009.

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2007, was as follows:

Actuarial Accrued Liability (AAL)	\$	1,215,099
Actuarial Value of Plan Assets	\$	1,215,099
Unfunded Actuarial Accrued Liability (UAAL)	\$	-
Funded Ratio (Actuarial Value of Plan Assets/AAL)		100%

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, 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.

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

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	June 30, 2007
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years as of the Valuation Date
Asset Valuation Method	15 year Smoothed Market
Actuarial Assumptions	
Discount	7.75%
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	CalPERS 1997-2002 Experience Study

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 during the current 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.

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

Note 9 - Supplemental Schedule Statement of Cash Flows

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

	2009	2008
Operating loss	\$ (2,281,412)	\$ (1,654,764)
Adjustments to reconcile the operating loss to net cash used by operating activities:		
Depreciation and amortization	1,191,373	1,009,213
OPEB cost in excess of contributions	67,889	-
Changes in operating assets and liabilities		
Prepaid other post employment benefits	(578,099)	
Accounts payable	337,557	145,219
Customer deposits	-	(15,250)
Compensated absences	60,312	53,597
Environmental clean up obligation	74,000	376,000
Postretirement health benefit obligation	(637,000)	-
Net cash used by operating activities	\$ (1,765,380)	\$ (85,985)

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	(1 st installment)
	March 1	(2 nd installment)
Delinquent Date	December 11	(1 st installment)
	April 11	(2 nd 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

GOLETA WEST SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS

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 to be approximately \$450,000 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, 2009 were \$712,833.

Note 13 - 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 \$50 million over the next four years. The District's portion of the total costs is estimated to be \$20.39 million. A substantial portion of this liability will be incurred and paid during the years 2012 through 2014. The District's portion of costs incurred as of the date of these financial statements was approximately \$1.1 million.

Note 14 - Reclassifications

Certain reclassifications have been made to prior year balances in order to conform with current year presentation.

Note 15 - Fiscal Sustainability and Uncertainty

During the current fiscal year, the City of Goleta proposed a detachment of the portion of the District that is within the City limits. This amounts to approximately 52% of the District's property. This detachment would significantly reduce the District's revenues and reserve funds and bring into question the Agency's current fiscal sustainability. As of the date of these financial statements, management is uncertain as to the probability of the detachment occurring during the subsequent fiscal year.

SUPPLEMENTAL INFORMATION

GOLETA WEST SANITARY DISTRICT

Schedule of Operating Expenses

For the Year Ended June 30, 2009 with Comparative Total for the Year Ended June 30, 2008

	<u>Sewage Collection</u>	<u>Sewage Treatment</u>	<u>Other Operating Expenses</u>	<u>Administration and General</u>	<u>2009</u>	<u>2008</u>
Salaries and wages	\$ 250,236	\$ -	\$ 101,115	\$ 250,781	\$ 602,132	\$ 548,516
Employee benefits	94,400	-	23,321	202,873	320,594	237,847
Director's fees	-	-	-	-	-	16,356
Contract services	32,291	1,276,778	284,703	11,978	1,605,750	1,769,680
Professional and other services	740	-	286,086	350,179	637,005	243,432
Utilities	68,954	-	16,396	7,865	93,215	98,827
Printing and publications	-	-	178	6,346	6,524	7,750
Insurance	29,571	-	3,943	7,664	41,178	46,709
Office expense	8	-	191	3,059	3,258	3,997
Operating supplies	1,281	-	9	-	1,290	2,716
Gas, oil and fuel	9,522	-	6,455	2,150	18,127	23,857
Repairs and maintenance	69,279	-	33,159	2,800	105,238	84,226
Training	4,676	-	916	6,765	12,357	14,521
Travel and meetings	993	-	264	1,663	2,920	5,890
Rents and leases	888	-	-	228	1,116	611
Books and periodicals	-	-	-	-	-	-
Memberships	903	-	157	8,323	9,383	10,670
Permits and licenses	2,134	-	-	3,742	5,876	5,150
Administration fees	-	73,379	20,218	-	93,597	73,250
Miscellaneous	-	-	77,962	9,289	87,251	3,415
Amortization	-	463,827	-	-	463,827	428,488
Depreciation	677,974	5,483	22,460	21,629	727,546	580,725
Totals, June 30, 2009	<u>\$ 1,243,850</u>	<u>\$ 1,819,467</u>	<u>\$ 877,533</u>	<u>\$ 897,334</u>	<u>\$ 4,838,184</u>	
Totals, June 30, 2008	<u>\$ 1,605,444</u>	<u>\$ 1,648,110</u>	<u>\$ 265,349</u>	<u>\$ 687,730</u>		<u>\$ 4,206,633</u>