



Goleta Water District Comprehensive Annual Financial Report

Goleta, California

For the Years Ended June 30, 2011 and 2010





Mission

To provide an adequate supply of quality water at the most reasonable cost to the present and future customers within the Goleta Water District

Comprehensive Annual Financial Report

For the Fiscal Years Ended

June 30, 2011 and 2010

GOLETA WATER DISTRICT

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Goleta, California 93110-1999

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Prepared by:
Administrative Manager/CFO
Matthew Anderson

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Board of Directors as of June 30, 2011

Name	Title	Elected/ Appointed	Current Term
Bill Rosen	President	Elected	12/08 - 12/12
Jack Cunningham	Vice President	Elected	12/10 - 12/14
Bert Bertrando	Director	Elected	12/10 - 12/14
Lauren Hanson	Director	Elected	12/08 - 12/12
Richard Merrifield	Director	Appointed	03/11 - 12/12

John McInnes, General Manager

David Matson, Assistant General Manager

Matthew Anderson, Administrative Manager/CFO

Tom Bunosky, Operations Manager

Chris Rich, Water Supply and Conservation Manager

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INTRODUCTORY SECTION



**Goleta Water District
Annual Financial Report
For the Years Ended June 30, 2011 and 2010**

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November 18, 2011

The Honorable Board of Directors and Customers of the Goleta Water District

The Comprehensive Annual Financial Report (CAFR) of the Goleta Water District (the District) for the fiscal year (FY) ended June 30, 2011 is submitted as prepared by the District Administration Department. The report provides our customers, the Board of Directors, and the investment community detailed information about the financial condition and operating results of the District.

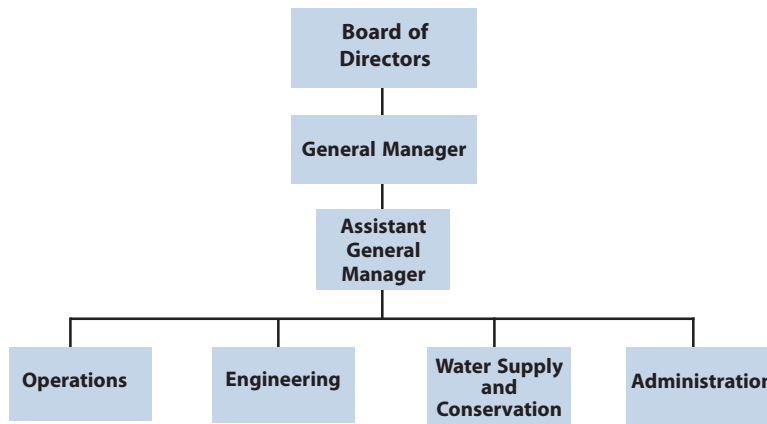
Responsibility for both the accuracy of the financial report and the completeness and fairness of the presentation rests with the District. To the best of our knowledge, the information represented in the CAFR is accurate, fair and complete in all material respects, and includes all disclosures necessary to understand District financial activities.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements for State and Local Governments, requires the District to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). The MD&A can be found immediately following the Independent Auditor's report.

District Profile

Established on November 17, 1944, the Goleta Water District encompasses an area extending along the south coast of Santa Barbara County west from the Santa Barbara city limits to El Capitan. The District, which spans approximately 29,000 acres (45 square miles), is bound on the south by the ocean and on the north by the foothills of the Santa Ynez Mountains. The District provides water to 89,000 people through 270 miles of pipeline via 16,600 individual customer accounts. The District manages a complex set of treatment and distribution systems using supplies of water from sources including Lake Cachuma, an adjudicated ground water basin, recycled water, and the State Water Project.

The District operates under the general direction of an elected five-member Board of Directors (the Board), who serve four year terms. Elections for two or three directors are held every two years. The Board meets on the second Tuesday of each month, with all meetings open to the public. The Board employs a General Manager and Assistant General Manager to oversee 60 employees. District staff is organized into four departments (outlined in the chart below) who direct daily activities associated with administration, engineering, operations, and water supply and conservation.



The District adopts an annual cash-basis budget that serves as the foundation for District financial planning and control.

Economic Conditions

As with any private business or governmental agency, the economy has a profound and direct impact on revenues. As earning power and consumer confidence have declined over the past several years, District customers have reduced their monthly consumption through conservation, which has resulted in lower annual water sales. Recently, the local economy is showing signs of incremental improvement, providing evidence that declining water usage trends will stabilize. As an example, Santa Barbara County unemployment stabilized in early 2010, which is an important indicator since unemployment shares a direct correlation with discretionary income; and higher unemployment leads to lower water consumption and reduced Water Sales.

Other current economic indicators further point to a stabilizing local environment, which include a year over year 18.6% reduction in the number of foreclosures along the Santa Barbara County south coast, accompanied by a 5.7% gain in local sales tax revenue during 2010 after three years of declines. Broadly speaking, these factors suggest recent incremental improvement in the local economy will continue into FY 2012, but growth will remain slow. Since District water sales are influenced by economic performance in the area, the District experienced a continued decline in Water Sales. There is no question that lingering uncertainty regarding the speed and rate of economic recovery and inflation has produced a forecasting climate marked by unpredictability.

The issue of weather variability is yet another significant externality that impacts the revenues of the District, where customers quickly conserve water usage in response to wet weather conditions. Statewide, FY 2011 precipitation levels were consistently above average in FY 2011 and the Goleta service area similarly experienced this phenomenon, with cumulative rainfall at 170% of normal levels. The National Oceanic and Atmospheric Administration in its recent winter outlook described 2011 weather conditions as an arctic oscillation that pushed cold air into the United States from Canada and sent an “atmospheric river” of moisture into Southern California. This was especially felt in the Central California area – where the mountain range is – which tends to be the transition zone between the drier-than-normal band in Southern California and the wetter-than-normal band weather in the northern reaches of the state. The District has prepared

for such unpredictable weather and its ensuing financial impact with well-defined cash reserve policies, techniques to predict cash balances, and action plans by management to swiftly reduce expenditures when needed to meet budgeted reserve designation targets.

Long-term Financial Planning

In anticipation that revenues would continue to be affected by a slow economy and abnormal weather, the District restructured its debt in August, 2010 to reduce annual debt service requirements by over \$1 million. This debt restructuring was coupled with additional cost-containment efforts, whereby management reduced expenditures by another \$2 million during the year. To achieve these reductions, non-critical projects were deferred, staff positions were held vacant, overtime was reduced, and contracts were renegotiated. As a result of these efforts, the District endured a period of economic uncertainty without affecting the reliable delivery of high quality water at reasonable rates.

To meet a plethora of fiscal and operational challenges head on, the District initiated a forward-looking management plan; developing a comprehensive 5-Year Infrastructure Improvement Plan that identified key infrastructure projects and the funding sources needed to ensure the safeguarding of its water system.

While cost deferrals enabled the District to endure declining revenue in FY 2011, it became clear that further long term structural solutions were still needed. Accordingly, beginning in the summer of 2010, the District launched a Cost of Service Study and 5-Year Financial Plan. After completing the study and sharing the results with the public, the Board of Directors voted on April 7, 2011 to increase water rates and meter charges on a sliding scale over 5 years, not to exceed 16% in the first year. This increase in rates took effect July 1, 2011.

Concurrent with these financial restructuring efforts, a number of key projects were successfully undertaken during the last fiscal year, which include:

- Completion of the Water Supply Management Plan, providing a roadmap for long term management of District water resources;
- Automation of accounting systems to increase administrative effectiveness and provide new fixed asset tracking solution;
- Update of the District website to establish a user-friendly and modern interface;
- Installation of new surface water collector pumps to maintain control of water runoff near the Water Treatment Plant;
- Management of a Lake Cachuma spill water event to improve supply reliability by injecting into the groundwater basin.

Relevant Financial Policies and Controls

In developing and maintaining the District's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance in regards to:

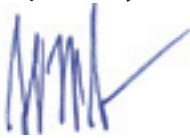
- The safeguarding of assets against losses from unauthorized use or disposition, and
- The reliability of financial records in preparation of financial statements and maintenance of accountability for assets.

The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires estimates and judgment by management. All internal control evaluations occur within the above framework and the District asserts that its controls inclusive of management oversight; adequately safeguard assets as well as provide reasonable assurance of proper recording of financial transactions.

The District requires that its financial statements be audited by a Certified Public Accountant selected by the Board of Directors. The District engaged Nasif, Hicks, Harris & Co., LLP, and their report and its unqualified ("clean") opinion are included in the financial section of this CAFR.

Staff thanks the members of the Board of Directors for their continued support in the planning and implementation of Goleta Water District fiscal policy.

Respectfully submitted,



John McInnes
General Manager



David Matson
Assistant General Manager



Matthew Anderson
Administrative Manager
Chief Financial Officer

FINANCIAL SECTION



NASIF, HICKS, HARRIS & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM J. NASIF
STEVEN J. HICKS
JEFFERY P. HARRIS
BARBARA ROGERS SCOLLIN
JODY DOLAN HOLEHOUSE
THOMAS W. BURK
MARIANNE F. BLOOM
ROBERT SWAYNE LYONS
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November 18, 2011

Independent Auditor's Report

To the Board of Directors of the Goleta Water District
Goleta, California

We have audited the accompanying financial statements of the Goleta Water District (District) as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Goleta Water District as of June 30, 2011 and 2010, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 15 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Nasif, Hicks, Harris & Co., LLP

Nasif, Hicks, Harris & Co., LLP

**Goleta Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010**

This annual report consists of a series of financial statements, including the *Statement of Net Assets*, the *Statement of Revenues, Expenses and Changes in Net Assets*, and the *Statement of Cash Flows*. These statements were completed using the accrual basis of accounting, which recognizes a full year of revenues and expenses regardless of when cash is received or paid. Each provides information about the activities and performance of the District using best practice governmental accounting methods similar to those used by private sector companies.

- The *Statement of Net Assets* summarizes District investments (assets) as well as its obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District, and assessing liquidity and financial flexibility.
- The *Statement of Revenues, Expenses and Changes in Net Assets* is a record of District revenue and expenses. Providing a measure of District financial performance over the year, this statement can also be used to determine District cost recovery through its rates and other charges, illustrating overall resource management efficacy and credit worthiness.
- The *Statement of Cash Flows* provides information about District cash receipts and cash payments. The statement defines net changes in cash resulting from operations, investments, debt service, and non-operating income.

Summary Analysis

District net assets, or the difference between assets and liabilities, measure the financial health of an organization. Over time, increases or decreases in District net assets also indicate the relative fiscal sustainability of the policy choices that govern administrative operations. It is important to keep these indicators in context with other non-financial factors such as changes in economic conditions, population growth, zoning, as well as changes to the regulatory environment. Since financial statements include a year-over-year comparison, this MD&A presents a full 3 years of financial information. Specific attention is placed on comparing FY 2011 to FY 2010.

Overall, FY 2011 saw the District establish a foundation for financial sustainability. New management sharply curtailed expenditures, restructured its debt, and completed foundational planning initiatives including the adoption of rate increases implemented over the next five years. As a result of these actions, operating income before depreciation increased by 281% in FY 2011. Also of note, the District grew its unrestricted cash balance in FY 2011 from \$734,052 at the beginning of the year to \$2,679,758 at year end. Further details of financial highlights are outlined below.

Goleta Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Financial Highlights

- During the FY 2011, District net assets decreased \$1,268,851 (2.5%) to \$48,843,223; down from \$50,112,074 at the end of FY 2010. Despite a \$1,890,203 improvement in non-operating revenues and a \$3,721,805 reduction in operating expenses, low sales revenue was not adequate to fully fund non-cash depreciation and amortization expenses. Further details are noted below and in the text of this document.
- Water sales declined by \$832,738 (5%) in FY 2011 as compared to the prior year, as customers responded to economic and climatic conditions by using less water.
- New Water Supply Charge Revenue increased by \$1,758,421 (566%) in FY 2011 as compared to the prior year, as the developer community responded to an increase in New Water Supply charges.
- Cost cutting initiatives during FY 2011 included careful prioritization of sourcing lower-cost water, focused cost cutting programs, deferral of project spending, reducing personnel costs, and refinancing debt.

Condensed Statement of Net Assets - Analysis:

	<u>2011</u>	<u>2010</u>	<u>Current Year Increase/ (Decrease)</u>	<u>2009</u>
Assets:				
Current assets	\$ 19,218,101	\$ 12,307,492	\$ 6,910,609	\$ 11,648,682
Non-current assets	7,636,171	4,375,869	3,260,302	7,367,952
Capital assets, net	82,518,609	86,222,028	(3,703,419)	89,950,000
Total assets	<u>\$ 109,372,881</u>	<u>\$ 102,905,389</u>	<u>\$ 6,467,492</u>	<u>\$ 108,966,634</u>
Liabilities:				
Current liabilities	\$ 4,530,208	\$ 6,774,907	\$ (2,244,699)	\$ 6,025,578
Non-current liabilities	55,999,450	46,018,408	9,981,042	47,549,310
Total liabilities	<u>60,529,658</u>	<u>52,793,315</u>	<u>7,736,343</u>	<u>53,574,888</u>
Net assets:				
Net investment in capital assets	29,361,518	41,156,056	(11,794,537)	42,429,343
Restricted for debt service	6,299,412	3,389,233	2,910,179	3,670,054
Restricted for construction projects	5,280,684	-	5,280,684	-
Unrestricted	7,901,609	5,566,785	2,334,823	9,292,349
Total net assets	<u>48,843,223</u>	<u>50,112,074</u>	<u>(1,268,851)</u>	<u>55,391,746</u>
Total liabilities and net assets	<u>\$ 109,372,881</u>	<u>\$ 102,905,389</u>	<u>\$ 6,467,492</u>	<u>\$ 108,966,634</u>

Goleta Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

- Current assets increased during FY 2011 by \$6,910,609 primarily due to a \$5,000,000 increase from debt proceeds for capital projects; an increase in prepaid expenses of \$625,425 to Central Coast Water Authority (CCWA); and a decrease in deferred interest rate swap cost of \$759,565 as a result of the debt restructuring. This reduction in the deferred asset is offset by an equal reduction in the current liability. Effective with fiscal years beginning after June 15, 2009, GASB Statement Number 53 required the District to report the fair market termination value of interest rate swap arrangements on its Statement of Net Assets. See note 15 for further information on the Interest Rate Swap and its reporting requirements.
- Excluding net capital assets, non-current assets increased during FY 2011 by \$3,260,302, representing an additional debt reserve requirement.
- Capital assets at June 30, 2011, including both depreciating and non-depreciating assets, was \$82,518,609 which represents a decrease of \$3,703,419 (4.3%) when compared to net capital assets of \$86,222,028 at June 30, 2010. This decrease was comprised of \$4,593,454 of current year depreciation, net of asset additions, transfers or deletions.
- Current liabilities decreased during FY 2011 by \$2,244,699 primarily as a result of the debt restructuring which replaced a short-term bank loan with long-term principal Certificates of Participation; including retirement of debt.
- Non-current liabilities increased during FY 2011 by \$9,981,042 as a result of the restructured debt including issuance of \$33,915,000 in 2010A Certificates of Participation. Proceeds were used to refund \$14,310,000 of 2003A Certificates of Participation; to pay off \$7,875,425 of total-term debt; and to raise \$5,000,000 for improvements to the water supply system. In addition, in 2011 long-term debt decreased by \$885,000, as principal was paid down.
- At the end of FY 2011 and FY 2010, the District showed a positive balance in its unrestricted net assets of \$7,901,608 and \$5,566,785, respectively (See note 10 for further information on the utilization of net assets in future periods).

Goleta Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Condensed Statement of Revenues, Expenses and Changes in Net Assets – Analysis:

	<u>2011</u>	<u>2010</u>	<u>Current Year Increase/ (Decrease)</u>	<u>2009</u>
Revenues:				
Operating revenues	\$ 22,931,802	\$ 23,833,852	\$ (902,050)	\$ 25,245,709
Non-operating revenues	2,259,383	369,180	1,890,203	5,640,742
Total revenues	<u>25,191,185</u>	<u>24,203,032</u>	<u>988,153</u>	<u>30,886,451</u>
Expenses:				
Operating expenses	19,107,945	22,829,750	(3,721,805)	22,717,232
Depreciation and amortization	4,593,454	4,620,998	(27,544)	3,951,664
Non-operating expenses	2,945,597	2,103,570	842,027	2,130,538
Total expenses	<u>26,646,996</u>	<u>29,554,318</u>	<u>(2,907,322)</u>	<u>28,799,434</u>
Net income (loss) before capital contributions	(1,455,811)	(5,351,286)	3,895,475	2,087,017
Capital contributions	<u>186,960</u>	<u>71,614</u>	<u>115,346</u>	<u>277,963</u>
Change in net assets	(1,268,851)	(5,279,672)	4,010,821	2,364,980
Net assets, beginning of year	<u>50,112,074</u>	<u>55,391,746</u>	<u>(5,279,672)</u>	<u>53,026,766</u>
Net assets, end of year	<u>\$ 48,843,223</u>	<u>\$ 50,112,074</u>	<u>\$ (1,268,851)</u>	<u>\$ 55,391,746</u>

- District operating revenues in FY 2011 were \$22,931,802 and decreased 3.8% or \$902,050 when compared to FY 2010 due to a decline in customer water consumption.
- FY 2011 new water supply charges of \$2,069,370 increased \$1,758,421 when compared to FY 2010 as a result of developers securing water supply rights at prevailing rates.
- District operating expenses decreased 16.3% or \$3,721,805 in FY 2011. Management decisions led to expenses being curtailed or deferred.
- District net assets decreased by \$1,268,851 and \$5,279,672, respectively for the fiscal years ended June 30, 2011 and 2010.

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$48,843,223 and \$50,112,074 as of June 30, 2011 and 2010, respectively.

Goleta Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Revenues – Analysis:

	<u>2011</u>	<u>2010</u>	Current Year Increase/ (Decrease)	<u>2009</u>
Operating revenues:				
Water consumption sales	\$ 15,721,912	\$ 16,554,650	\$ (832,738)	\$ 17,891,753
Monthly meter service charge	6,987,420	7,052,721	(65,301)	7,086,522
Other charges and services	<u>222,470</u>	<u>226,481</u>	<u>(4,011)</u>	<u>267,434</u>
Total operating revenues	<u>22,931,802</u>	<u>23,833,852</u>	<u>(902,050)</u>	<u>25,245,709</u>
Non-operating revenues:				
Interest and investment earnings	67,164	-	67,164	338,908
Rental revenue – cellular antennas	24,676	23,957	719	23,259
New water supply charge	2,069,370	310,949	1,758,421	4,846,624
Gain on sale/disposition of capital assets, net	-	12,929	(12,929)	402,230
Other non–operating revenues, net	<u>98,173</u>	<u>21,345</u>	<u>76,828</u>	<u>29,721</u>
Total non–operating revenues	<u>2,259,383</u>	<u>369,180</u>	<u>1,890,203</u>	<u>5,640,742</u>
Total revenues	<u>\$ 25,191,185</u>	<u>\$ 24,203,032</u>	<u>\$ 988,153</u>	<u>\$ 30,886,451</u>

- In FY 2011, total operating revenue declined \$902,050 primarily due to a decrease in water consumption sales by \$832,738. In FY 2011, there were 12,161 acre-feet of metered water delivered, reflecting a 6.2% or 810 acre-feet decline from FY 2010 deliveries. Cooler and wetter weather conditions, water conservation measures and the effect of the economic downturn affected how customers consumed water.
- FY 2011 non-operating revenue increased when compared to FY 2010 by \$1,890,203 primarily as a result of a \$1,758,421 increase in new water supply revenues as project applicants sought to secure water supply rights at prevailing rates prior to a scheduled increase effective July 1, 2011.

Goleta Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Expenses – Analysis:

	<u>2011</u>	<u>2010</u>	Current Year Increase/ (Decrease)	<u>2009</u>
Operating expenses:				
Source of supply	\$ 9,968,271	\$ 11,522,500	\$ (1,554,229)	\$ 11,556,246
Water treatment	2,190,570	2,958,871	(768,301)	2,824,069
Transmission and distribution	2,280,486	3,293,092	(1,012,606)	3,486,767
Customer accounts	846,299	1,146,336	(300,037)	973,101
General and administrative	3,822,319	3,908,951	(86,632)	3,877,049
Depreciation and amortization	4,593,454	4,620,998	(27,544)	3,951,664
Total operating expenses	<u>23,701,399</u>	<u>27,450,748</u>	<u>(3,749,349)</u>	<u>26,668,896</u>
Non-operating expenses:				
Interest expense – long-term debt	2,888,359	1,958,678	929,681	2,017,803
Interest expense and investment losses	-	43,888	(43,888)	-
Amortization expense	57,238	101,004	(43,766)	112,735
Total non-operating expenses	<u>2,945,597</u>	<u>2,103,570</u>	<u>842,027</u>	<u>2,130,538</u>
Total expenses	<u>\$ 26,646,996</u>	<u>\$ 29,554,318</u>	<u>\$ (2,907,322)</u>	<u>\$ 28,799,434</u>

In 2011, total operating expenses decreased \$3,749,349 from the prior year.

- Source of Supply costs are largely fixed and include amounts paid to Cachuma Operations and Maintenance Board (COMB); Cachuma Conservation Release Board (CCRB); Goleta Sanitary District (for recycled water); well operations and maintenance project costs, and the Central Coast Water Authority (CCWA). The \$1,554,229 decrease was primarily due to one-time credits from CCWA and a focused effort on utilizing lower-cost water sources.
- Water treatment and transmission and distribution costs decreased \$1,780,907 as a result of management oversight and cost containment measurements.
- Customer account and other general and administrative costs, including depreciation, decreased \$414,213 as a result of strategic cost containment measures implemented by District management.

Total non-operating expense increased \$842,027, primarily due to interest expense increase associated with issuance of new debt.

Goleta Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Capital Assets - Analysis:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2011</u>
Capital assets:				
Non-depreciable assets	\$ 3,688,667	\$ 1,242,839	\$ (1,290,381)	\$ 3,641,125
Depreciable assets	138,054,663	937,777	(200)	138,992,240
Accumulated depreciation and amortization	<u>(55,521,302)</u>	<u>(4,593,454)</u>	<u>-</u>	<u>(60,114,756)</u>
Total capital assets, net	<u>\$ 86,222,028</u>	<u>\$ (2,412,838)</u>	<u>\$ (1,290,581)</u>	<u>\$ 82,518,609</u>

	<u>Balance 2009</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2010</u>
Capital assets:				
Non-depreciable assets	\$ 2,984,032	\$ 1,496,875	\$ (792,240)	\$ 3,688,667
Depreciable assets	137,904,389	188,392	(38,118)	138,054,663
Accumulated depreciation and amortization	<u>(50,938,421)</u>	<u>(4,620,999)</u>	<u>38,118</u>	<u>(55,521,302)</u>
Total capital assets, net	<u>\$ 89,950,000</u>	<u>\$ (2,935,732)</u>	<u>\$ (792,240)</u>	<u>\$ 86,222,028</u>

At the end of FY 2011 and FY 2010, District capital investment totaled \$82,518,609 and \$86,222,028 (net of accumulated depreciation), respectively. Investments include: land, land rights, water treatment plant, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process. New capital assets remained minimal during FY 2010 and FY 2011 as the District focused significant attention on financial restructuring of rates and charges as well as investment capitalization and debt.

Goleta Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Debt - Analysis:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Amortization</u>	<u>Balance 2011</u>
Debt:					
Note payable, bank	\$ 4,197,810	\$ -	\$ (4,197,810)	\$ -	\$ -
State loan payable	3,677,615	-	(3,677,615)	-	-
Certificates of participation, net	<u>37,190,546</u>	<u>33,915,000</u>	<u>(15,195,000)</u>	<u>(2,753,455)</u>	<u>53,157,091</u>
Total debt, net	<u>\$ 45,065,971</u>	<u>\$ 33,915,000</u>	<u>\$ (23,070,425)</u>	<u>\$ (2,753,455)</u>	<u>\$ 53,157,091</u>

	<u>Balance 2009</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Amortization</u>	<u>Balance 2010</u>
Debt:					
Note payable, bank	\$ 4,457,920	\$ -	\$ (260,110)	\$ -	\$ 4,197,810
State loan payable	4,082,786	-	(405,171)	-	3,677,615
Certificates of participation, net	<u>39,005,000</u>	<u>-</u>	<u>(1,780,000)</u>	<u>(34,454)</u>	<u>37,190,546</u>
Total debt, net	<u>\$ 47,545,706</u>	<u>\$ -</u>	<u>\$ (2,445,281)</u>	<u>\$ (34,454)</u>	<u>\$ 45,065,971</u>

On August 26, 2010, the District restructured its debt and issued \$33,915,000 in 2010 Certificates of Participation. Funds were used to refund \$14,310,000 of Certificates of Participation issued in 2003; to pay off \$7,875,425 of loans; and to raise \$5,000,000 needed to invest in the water supply system. Also during 2011, long-term debt decreased by \$885,000 due to regular principal being paid down.

To refund, or defease, the outstanding \$14,310,000 of 2003 Certificates of Participation, the transaction to restructure the debt required the District to irrevocably place sufficient assets in a trust. This created \$1,564,630 of unamortized defeasance costs, or the difference between the State and Local Government Series (SLGS) securities acquired by the Trustee to pay off the debt and the net carrying value of the original debt itself. Remaining unamortized costs in FY 2011 included specific financing costs associated with exiting certain agreements and issuing new debt.

Goleta Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Conditions Affecting Current Financial Position

Management has noted certain items as potential issues that may affect its current financial position in the footnotes to the financial statements (see Note 14 - Commitments and Contingencies for additional detail).

Notes to the Basic Financial Statements

The notes following the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Requests for Information

This financial report is designed to provide District officers, investors, customers, stakeholders, and other interested parties with an overview of District financial condition, as well as insight into current fiscal practices and overall management oversight of District operations. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District Administrative Manager/CFO at 4699 Hollister Avenue, Goleta, CA 93110-1999.

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Goleta Water District
Statements of Net Assets
June 30,

ASSETS

	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,679,758	\$ 734,052
Restricted – cash and cash equivalents	5,280,684	-
Accrued interest receivable	5,202	5,284
Accounts receivable – water sales and services, net	2,766,951	3,031,456
Accounts receivable – other	184,810	112,040
Note receivable – current portion	3,363	17,873
Water-in-storage inventory	548,636	501,726
Materials and supplies inventory	182,477	204,701
Deferred interest rate swap cost	-	759,565
Prepaid source of supply costs	7,405,649	6,786,216
Prepaid expenses and other deposits	160,571	154,579
	19,218,101	12,307,492
TOTAL CURRENT ASSETS		
NON-CURRENT ASSETS:		
Restricted – investments	6,933,350	3,528,267
Note receivable – non-current	24,214	27,865
Deferred water supply renegotiation costs, net	306,158	336,774
Deferred charges, net	372,449	482,963
Capital assets, not being depreciated	3,641,125	3,688,667
Depreciable capital assets, net	78,877,484	82,533,361
	90,154,780	90,597,897
TOTAL NON-CURRENT ASSETS		
TOTAL ASSETS	\$ 109,372,881	\$ 102,905,389

See accompanying notes to the basic financial statements.

Goleta Water District
Statements of Net Assets
June 30,

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 584,344	\$ 691,376
Accrued wages and related payables	47,253	324,705
Customer advances and deposits	2,158,434	2,063,311
Accrued interest payable on loans payable	-	73,246
Accrued interest payable on certificates-of-participation	633,938	139,034
Interest rate swap contract liability	-	759,565
Long-term liabilities – due within one year:		
Compensated absences	181,239	199,284
Loans payable	-	689,386
Certificates-of-participation payable	925,000	1,835,000
Total Current Liabilities	4,530,208	6,774,907
NON-CURRENT LIABILITIES:		
Long-term liabilities – due in more than one year:		
Compensated absences	510,987	597,852
Post employment benefits payable	3,256,372	2,878,971
Loans payable	-	7,186,039
Certificates-of-participation payable	52,232,091	35,355,546
Total Non-Current Liabilities	55,999,450	46,018,408
Total Liabilities	60,529,658	52,793,315
NET ASSETS:		
Net investment in capital assets	29,361,518	41,156,056
Restricted for debt service	6,299,412	3,389,233
Restricted – other	5,280,684	-
Unrestricted	7,901,609	5,566,785
Total Net Assets	48,843,223	50,112,074
TOTAL LIABILITIES AND NET ASSETS	\$ 109,372,881	\$ 102,905,389

See accompanying notes to the basic financial statements.

Goleta Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30,

	2011	2010
OPERATING REVENUES:		
Water consumption sales	\$ 15,721,912	\$ 16,554,650
Monthly service charge	6,987,420	7,052,721
Other charges and services	222,470	226,481
Total operating revenues	22,931,802	23,833,852
OPERATING EXPENSES:		
Source of supply	9,968,271	11,522,500
Water treatment	2,190,570	2,958,871
Transmission and distribution	2,280,486	3,293,092
Customer accounts	846,299	1,146,336
General and administrative	3,822,319	3,908,951
Total operating expenses	19,107,945	22,829,750
Operating income before depreciation	3,823,857	1,004,102
Depreciation expense	(4,593,454)	(4,620,998)
Operating loss	(769,597)	(3,616,896)
NON-OPERATING REVENUE (EXPENSE):		
Interest and investment (loss) earnings	67,164	(43,888)
Rental revenue – cellular antennas	24,676	23,957
New water supply charges	2,069,370	310,949
Interest expense – long-term debt	(2,888,359)	(1,958,678)
Amortization expense	(57,238)	(101,004)
Gain on sale/disposition of capital assets, net	-	12,929
Other non-operating revenues, net	98,173	21,345
Total non-operating loss, net	(686,214)	(1,734,390)
Net loss before capital contributions	(1,455,811)	(5,351,286)
CAPITAL CONTRIBUTIONS:		
State capital grant	27,219	30,076
Capital contributions	132,486	-
Connection fees	27,255	41,538
Capital contributions	186,960	71,614
Change in net assets	(1,268,851)	(5,279,672)
Net Assets, Beginning of Year	50,112,074	55,391,746
Net Assets, End of Year	\$ 48,843,223	\$ 50,112,074

See accompanying notes to the basic financial statements.

**Goleta Water District
Statements of Cash Flows
For the Years Ended June 30,**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers for water sales and services	\$ 23,218,661	\$ 23,960,958
Cash paid to employees for salaries and wages	(7,808,924)	(6,999,111)
Cash paid to vendors and suppliers for materials and services	(11,984,161)	(14,069,031)
Net Cash Provided by Operating Activities	<u>3,425,576</u>	<u>2,892,816</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(890,035)	(893,026)
Proceeds from capital grants	27,219	30,076
Proceeds from connection fees	2,069,370	41,538
Proceeds from capital contributions	27,255	-
Proceeds from capacity charges	132,486	310,949
Proceeds from long-term debt	33,164,041	-
Principal paid on long-term debt	(23,070,425)	(2,445,281)
Certificate of participation issuance costs	(99,433)	-
Funds placed into escrow for advanced refunding	(1,564,630)	-
Termination of swap	(723,336)	-
Interest paid on long-term debt	(1,933,861)	(1,970,974)
Proceeds from the sale of capital assets	-	12,929
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>7,138,651</u>	<u>(4,913,789)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	-	2,446,859
Purchases of investments	(3,405,083)	-
Interest and investment earnings	67,246	13,044
Net Cash (Used) Provided by Investing Activities	<u>(3,337,837)</u>	<u>2,459,903</u>
Net Increase in Cash and Cash Equivalents	7,226,390	438,930
Cash and Cash Equivalents, Beginning of Year	734,052	295,122
Cash and Cash Equivalents, End of Year	<u>\$ 7,960,442</u>	<u>\$ 734,052</u>
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 2,679,758	\$ 734,052
Restricted assets – cash and cash equivalents	<u>5,280,684</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 7,960,442</u>	<u>\$ 734,052</u>

See accompanying notes to the basic financial statements.

**Goleta Water District
Statements of Cash Flows
For the Years Ended June 30,**

	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (769,597)	\$ (3,616,896)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	4,650,692	4,620,998
Other non-operating revenues (expenses)	83,772	(62,681)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable – water sales and services, net	264,505	41,393
Accounts receivable – other	(72,770)	(5,513)
Water-in-storage inventory	(46,910)	124,470
Materials and supplies inventory	22,224	18,234
Prepaid Central Coast Water Authority source of supply costs	(619,433)	395,144
Prepaid expenses and other deposits	(70,037)	(29,099)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(107,032)	(142,540)
Accrued wages and related payables	(277,452)	6,032
Customer advances and deposits	95,123	91,226
Compensated absences	(104,910)	(127,052)
Post employment retirement benefits	377,401	1,579,100
Total adjustments	4,195,173	6,509,712
Net Cash Provided by Operating Activities	\$ 3,425,576	\$ 2,892,816
NON-CASH INVESTING , CAPITAL AND FINANCING TRANSACTIONS:		
Change in fair-market value of investments	\$ -	\$ (131,022)

See accompanying notes to the basic financial statements.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 1: Reporting Entity and Summary of Significant Accounting Policies

Organization and Operations of the Reporting Entity

Established on November 17, 1944, the Goleta Water District (the District) encompasses an area extending along the south coast of Santa Barbara County west from the Santa Barbara city limits to El Capitan. The District is governed by a five-member Board of Directors who serve overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Goleta Water District Financing Corporation (Corporation) was incorporated in May 1993. The Corporation is a California nonprofit public benefit corporation formed to assist the District by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District and as such has no employees or other operations. Although the Corporation is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations. No separate financial statements are prepared for the Corporation.

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 a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 1: Reporting Entity and Summary of Significant Accounting Policies - continued

Basis of Accounting and Measurement Focus - continued

Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses. Non-operating revenues and expenses, such as grant funding, investment income and interest expense, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces the income statement. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

The financial statements of the District have been prepared in conformity with Generally Accepted Accounting Principles (GAAP), which include pronouncements by appropriate standard-setting organizations. The Governmental Accounting Standards Board (GASB) is the recognized authority 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.

Note 1: Reporting Entity and Summary of Significant Accounting Policies - continued

Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

3. Investments and Investment Policy

In accordance with the District's investment policy, the Board of Directors delegates the investment authority of the District to the General Manager. In accordance with the Government Code sections, collateral established as security for District funds will be those securities specified by law as eligible for collateral for deposits of local public agencies. Investment of District moneys not required for immediate expenditure will be made in securities or other certificates of indebtedness as provided for by law for the investment of public funds.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the provision for doubtful accounts and the write-off of those accounts.

Note 1: Reporting Entity and Summary of Significant Accounting Policies - continued

Assets, Liabilities and Net Assets - continued

5. Federal and State Capital and Operating Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the statement of net assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

6. Water-In-Storage Inventory

On October 1 of each year, 9,322 acre feet of water is allocated to the District as a result of District participation in the Cachuma Lake Project. If all of the allocation is not used in the current year, it is stored in the Cachuma Lake Project for use the following year. In addition, an amount of unused water carried over from prior years, if available, is also stored in the facility. The District has its own facilities for storing water in which stored water carries no cost. This stored water is subject to loss through evaporation, natural disasters, dam ruptures, excess rainfall and dam spillage at the various facilities. The losses are not covered by insurance.

7. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipe fittings for construction and repair to District water transmission and distribution systems. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

8. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Note 1: Reporting Entity and Summary of Significant Accounting Policies - continued

Assets, Liabilities and Net Assets – continued

9. Restricted Assets

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly are shown as restricted assets on the accompanying statement of net assets. Certificates of Participation reserve funds and construction funds set aside from Certificates of Participation proceeds are restricted for future debt service payments and construction projects. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

10. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Transmission and distribution system	50 years
Service lines	33 1/3 years
Wells and water treatment equipment	5-25 years
Other equipment and vehicles	5-11 years

11. Deferred Water Supply Renegotiation Costs

Renegotiation costs represent the capital portion of expenses incurred by the Cachuma Project Authority (CPA) on behalf of the Goleta Water District and others in order to renegotiate the Lake Cachuma water supply contract with the U.S. Bureau of Reclamation. A new agreement was developed in April 1996, and renegotiation costs are amortized over the term of the new contract, which is 25 years.

12. Deferred Charges

Deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

Note 1: Reporting Entity and Summary of Significant Accounting Policies - continued

Assets, Liabilities and Net Assets – continued

13. Compensated Absences

District personnel policies provide for accumulation of vacation, sick leave and compensated time-off. Liabilities for vacation, sick leave and compensated time-off are recorded when benefits are earned. Cash payment of unused vacation, percentage earned sick time and compensated time-off is available to those qualified employees when retired or terminated.

14. Construction Advances and Deposits

Construction advances represent deposits received in aid of construction, which are refundable if the applicable construction costs are less or do not take place. Construction advances are transferred to Contributed capital when the applicable construction project is completed.

15. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

Net Investment in Capital Assets – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.

Restricted Net Assets – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

16. Water Sales

Water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

Note 1: Reporting Entity and Summary of Significant Accounting Policies - continued

Assets, Liabilities and Net Assets - continued

17. New Water Supply Charges

New water supply charge revenue is also described in previous years as capacity charges. The purpose is to recover a portion of the costs that developed additional new water supplies necessary to provide such additional service. All new water service connections are subject to the new water supply charge, a one-time charge; currently \$26,240 per acre foot. The conditions letter issued by the District to the applicant pursuant to District Code Section 5.08.20 (F) includes the amount of the new water supply charge for the new service. The new water supply charge must be paid prior to issuance of a can and will serve letter or application approval at the date of this reporting period. The formula for determining this charge, described in the District's Code at Appendix A (12), are based on the type of project and required service size. Project types include single-family residential, multiple-family residential, landscape and recreation irrigation, agricultural irrigation, commercial and other nonresidential uses and expanded service to existing structures or uses. This charge applies to new connections for both potable and reclaimed water service.

18. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or by real estate developers desiring services that require capital expenditures to connect to the District's transmission and distribution system.

19. Budgetary Policies

The District adopts an annual budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 2: Cash and Investments

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

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 2,679,758	\$ 734,052
Restricted – cash and cash equivalents	5,280,684	-
Restricted – investments	6,933,350	3,528,267
	<u> </u>	<u> </u>
Total Cash and Investments	<u>\$ 14,893,792</u>	<u>\$ 4,262,319</u>

Cash and investments as of June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 500	\$ 500
Deposits with financial institutions	7,959,942	733,552
Investments	6,933,350	3,528,267
	<u> </u>	<u> </u>
Total Cash and Investments	<u>\$ 14,893,792</u>	<u>\$ 4,262,319</u>

Investments Authorized by the California Government Code and the District’s Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or District investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District’s investment policy.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 2: Cash and Investments - continued

Authorized Investment Types*	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Time Deposits, Non-negotiable			
Money Market Funds	N/A	20%	None
Santa Barbara County Pooled Investment Fund	N/A	None	None
State of California's Local Agency Investment Fund (LAIF)	N/A	None	None
Local Government Investment pools (Joint Power Authority Pools)	N/A	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Obligations	None	None	None
Bankers Acceptances	None	None	None
Commercial Paper	180 days	30%	10%
Corporate bonds, debentures, and notes	None	None	None
Interest bearing accounts – state or national banks or state or national savings and loans	None	None	None
Local Agency Investment Funds	None	None	None
Money Market Mutual Funds	None	None	None
Investment Contracts	None	None	None

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 2: Cash and Investments - continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District has deposits with various banks with various bank balances as of June 30, 2011 and 2010, respectively. Of the bank balances, up to \$250,000 in 2011 and 2010 are federally insured and the remaining balance is collateralized in accordance with the California Government Code.

Investment in State Investment Pool

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

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 2: Cash and Investments - continued

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 are to changes in market interest rates. At the close of FY 2010 and 2011, the District balanced its liquidity needs by investing only in short-term securities. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

Investments at June 30, 2011, consisted of the following:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Certificates-of-deposit	\$ 24,322	\$ 24,322	\$ -	\$ -	\$ -
Held by bond trustee:					
California State Treasurer – LAIF	6,908,269	6,908,269	-	-	-
Dreyfus Treasury and Agency Cash Management	759	759	-	-	-
Total	\$ 6,933,350	\$ 6,933,350	\$ -	\$ -	\$ -

Investments at June 30, 2010, consisted of the following:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Certificates-of-deposit	\$ 24,148	\$ 24,148	\$ -	\$ -	\$ -
Held by bond trustee:					
Dreyfus Treasury and Agency Cash Management	3,504,119	3,504,119	-	-	-
Total	\$ 3,528,267	\$ 3,528,267	\$ -	\$ -	\$ -

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 2: Cash and Investments - continued

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. Investment ratings were obtained from Standard and Poor's. Presented below is the minimum legal rating required, where applicable, by the California Government Code or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings at June 30, 2011, consisted of the following:

Investment Type	Amount	Min Legal Rating	Exempt from Disclosure	S&P Ratings		
				AAA	AA-	BB-
Certificates-of-deposit Fund Held by bond trustee:	\$ 24,322	N/A	\$ 24,322	\$ -	\$ -	\$ -
California State Treasurer - LAIF	6,908,269	N/A	6,908,269	-	-	-
Dreyfus Treasury and Agency Cash Management	759	AAA	-	759	-	-
Total	\$ 6,933,350		\$ 6,932,591	\$ 759	\$ -	\$ -

Credit ratings at June 30, 2010, consisted of the following:

Investment Type	Amount	Min Legal Rating	Exempt from Disclosure	S&P Ratings		
				AAA	AA-	BB-
Certificates-of-deposit Fund Held by bond trustee:	\$ 24,148	N/A	\$ 24,148	\$ -	\$ -	\$ -
Dreyfus Treasury and Agency Cash Management	3,504,119	AAA	-	3,504,119	-	-
Total	\$ 3,528,267		\$ 24,148	\$ 3,504,119	\$ -	\$ -

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 2: Cash and Investments - continued

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 other than money market funds which are limited to 20% of the District's portfolio at the time of initial purchase. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

<u>Issuer</u>	<u>Investment type</u>	<u>Reported Amount</u>	
		<u>2011</u>	<u>2010</u>
California State Treasurer - LAIF	Local Agency Investment Fund	\$ 6,908,269	\$ -
Dreyfus Treasury and Agency	U.S. Treasury Obligations	\$ 759	\$ 3,504,119

Note 3: Accounts Receivable - Water Sales and Services, Net

The balance at June 30, consists of the following:

	<u>2011</u>	<u>2010</u>
Accounts receivable - water sales and services	\$ 2,787,361	\$ 3,075,804
Allowance for uncollectible accounts	(20,410)	(44,348)
Accounts Receivable - Water Sales, Net	<u>\$ 2,766,951</u>	<u>\$ 3,031,456</u>

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 4: Prepaid Central Coast Water Authority Source of Supply Costs

In 1991, the voters of the District elected to participate in the State Water Project (SWP). As a result, the District joined in the formation of the Central Coast Water Authority (CCWA) in August 1991. The purpose of the Central Coast Water Authority is to provide for the financing, construction, operation, and maintenance of certain local (non- state owned) facilities required to deliver water from the SWP to certain water purveyors and users in Santa Barbara County.

Each project participant, including the District, has entered into a Water Supply Agreement to provide for the development, financing, construction, operation and maintenance of the CCWA Project. The purpose of the Water Supply Agreement is to assist in carrying out the purposes of CCWA with respect to the CCWA Project by: (1) requiring CCWA to sell, and the Santa Barbara Project participants to buy, a specified amount of water from CCWA (“take or pay”); and (2) assigning the project participant’s entitlement rights in the State Water project to CCWA. Although the District does have an ongoing financial interest pursuant to the Water Supply Agreement between the District and CCWA, the District does not have an equity interest in the CCWA Project.

Each project participant is required to pay to CCWA an amount equal to its share of the total cost of “fixed project costs” and certain other costs in the proportion established in the Water Supply Agreement. This includes the project participant’s share of payments to the State Department of Water Resources (DWR) under the State Water Supply Contract (including capital, operation, maintenance, power and replacement costs of the DWR facilities), debt service on CCWA bonds and all CCWA operation and administrative costs.

CCWA is composed of eight voting members, all of which are public agencies. CCWA was organized and exists under a joint exercise of power agreement among the various participating public agencies. The Board of Directors is made up of one representative from each participating entity. Votes on the Board are approximately apportioned between the entities based upon each entity’s allocation of State water entitlement. The District’s share of the project, based upon number of acre-feet of water, is 17.2%. Operating and capital expenses are allocated among the members based upon various formulas recognizing the benefits of the various project components to each member.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 4: Prepaid Central Coast Water Authority Source of Supply Costs – continued

Each project participant is required to make payments under its Water Supply Agreement solely from the revenues of its water system. Each project participant has agreed in its Water Supply Agreement to fix, prescribe and collect rates and charges for its water system which will be at least sufficient to yield each fiscal year net revenues equal to 125% of the sum of (1) the payment required pursuant to the Water Supply Agreement, and (2) debt service on any existing participant obligation for which revenues are also pledged.

Per CCWA, the District's estimated payments for State Water infrastructure for the next five fiscal years and thereafter are summarized below:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 7,179,742
2013	7,178,193
2014	7,308,649
2015	7,371,091
2016	7,390,306
Thereafter	98,371,854
Total	<u>\$ 134,799,835</u>

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 5: Capital Assets

Changes in capital assets for the current year were as follows:

	<u>Balance 2010</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-Depreciable Assets:				
Land and land rights	\$ 237,161	\$ -	\$ -	\$ 237,161
Construction-in-process	3,451,506	1,242,839	(1,290,381)	3,403,964
Total Non-Depreciable Assets	<u>3,688,667</u>	<u>1,242,839</u>	<u>(1,290,381)</u>	<u>3,641,125</u>
Depreciable Assets:				
Transmission and distribution system	52,342,296	349,838	-	52,692,134
Recycled water system	24,416,747	-	-	24,416,747
Water treatment plant/equipment	40,259,756	-	-	40,259,756
Wells	8,484,106	-	(200)	8,483,906
Pumping equipment	2,120,436	552,755	-	2,673,191
Structures and improvements	3,206,589	-	-	3,206,589
Other plant and equipment	7,224,733	35,184	-	7,259,917
Total Depreciable Assets	<u>138,054,663</u>	<u>937,777</u>	<u>(200)</u>	<u>138,992,240</u>
Accumulated depreciation and amortization:				
Transmission and distribution system	(23,044,209)	(1,150,315)	-	(24,194,524)
Recycled water system	(12,458,142)	(809,227)	-	(13,267,369)
Water treatment plant/equipment	(10,164,440)	(1,104,455)	-	(11,268,895)
Wells	(2,574,775)	(451,873)	-	(3,026,648)
Pumping equipment	(1,632,750)	(45,293)	-	(1,678,043)
Structures and improvements	(1,189,990)	(94,713)	-	(1,284,703)
Other plant and equipment	(4,456,996)	(937,578)	-	(5,394,574)
Total accumulated depreciation and amortization.	<u>(55,521,302)</u>	<u>(4,593,454)</u>	<u>-</u>	<u>(60,114,756)</u>
Total Depreciable Assets, Net	<u>82,533,361</u>	<u>(3,655,677)</u>	<u>(200)</u>	<u>78,877,484</u>
Total Capital Assets, Net	<u>\$ 86,222,028</u>	<u>\$ (2,412,838)</u>	<u>\$ (1,290,581)</u>	<u>\$ 82,518,609</u>

In 2011, major capital asset additions during the year include various projects and upgrades to District transmission and distribution systems, pumping equipment, and other plant equipment. A portion of these additions were constructed by the District and transferred out of construction-in-process upon completion of these various projects.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 5: Capital Assets - continued

Changes in capital assets for the prior year were as follows:

	Balance 2009	Additions/ Transfers	Deletions/ Transfers	Balance 2010
Non-Depreciable Assets:				
Land and land rights	\$ 237,161	\$ -	\$ -	\$ 237,161
Construction-in-process	2,746,871	1,496,875	(792,240)	3,451,506
Total Non-Depreciable Assets	2,984,032	1,496,875	(792,240)	3,688,667
Depreciable Assets:				
Transmission and distribution system	52,306,048	36,248	-	52,342,296
Recycled water system	24,343,328	73,419	-	24,416,747
Water treatment plant/equipment	40,240,949	18,807	-	40,259,756
Wells	8,484,106	-	-	8,484,106
Pumping equipment	2,113,079	7,357	-	2,120,436
Structures and improvements	3,206,589	-	-	3,206,589
Other plant and equipment	7,210,290	52,561	(38,118)	7,224,733
Total Depreciable Assets	137,904,389	188,392	(38,118)	138,054,663
Accumulated depreciation and amortization:				
Transmission and distribution system	(22,042,674)	(1,001,535)	-	(23,044,209)
Recycled water system	(11,647,853)	(810,289)	-	(12,458,142)
Water treatment plant/equipment	(8,797,361)	(1,367,079)	-	(10,164,440)
Wells	(2,276,379)	(298,396)	-	(2,574,775)
Pumping equipment	(1,602,957)	(29,793)	-	(1,632,750)
Structures and improvements	(1,102,273)	(87,717)	-	(1,189,990)
Other plant and equipment	(3,468,924)	(1,026,190)	38,118	(4,456,996)
Total accumulated depreciation and amortization.	(50,938,421)	(4,620,999)	38,118	(55,521,302)
Total Depreciable Assets, Net	86,965,968	(4,432,607)	-	82,533,361
Total Capital Assets, Net	\$ 89,950,000	\$ (2,935,732)	\$ (792,240)	\$ 86,222,028

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 5: Capital Assets – continued

In 2010, major capital asset additions during the year included various projects and upgrades to the District’s transmission and distribution systems, recycled water system, water treatment facility, and other miscellaneous equipment. A portion of these additions were constructed by the District and transferred out of construction-in-process upon completion of these various projects.

Construction-In-Process

The District was involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at June 30 were as follows:

	2011	2010
Groundwater basin modeling	\$ 291,860	\$ 277,166
GWD/CSB Interconnect project	150,338	149,997
Los Carneros generating facility upgrades	-	552,754
Hollister Business Park	-	132,273
Cathedral Oaks Hwy 101 overcrossing	362,252	213,209
Water line replacements	158,083	153,910
San Ricardo well rehabilitation	387,923	382,179
UCSB Ocean Walk	102,615	-
Corona Del Mar – Sludge Bed Construction	110,753	-
Various other minor projects <\$100,000	1,840,140	1,590,018
Construction-in-Process	\$ 3,403,964	\$ 3,451,506

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 6: Deferred Charges

The deferred charges balance relates to the issuance costs of the 2010 Certificates of Participation and 2003 Certificates of Participation. The deferred charges are being amortized over a 20 year or 25 year period, consistent with the terms of the related Certificates of Participation. The deferred charges net balances are as follows.

The balance at June 30, consists of the following:

	2011	2010
Deferred charges	\$ 548,190	\$ 729,000
Accumulated amortization	(175,741)	(246,037)
Deferred Charges, Net	\$ 372,449	\$ 482,963

Note 7: Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

Changes to compensated absences for 2011, were as follows:

Balance 2010	Earned	Taken	Balance 2011	Current Portion	Long-Term Portion
\$ 797,136	\$ 583,565	\$ (688,475)	\$ 692,226	\$ 181,239	\$ 510,987
\$ 797,136	\$ 583,565	\$ (688,475)	\$ 692,226	\$ 181,239	\$ 510,987

Changes to compensated absences for 2010, were as follows:

Balance 2009	Earned	Taken	Balance 2010	Current Portion	Long-Term Portion
\$ 924,188	\$ 576,602	\$ (703,654)	\$ 797,136	\$ 199,284	\$ 597,852
\$ 924,188	\$ 576,602	\$ (703,654)	\$ 797,136	\$ 199,284	\$ 597,852

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 8: Long-Term Debt Included in Non-Current Liabilities

Changes in long-term debt amounts for the current year were as follows:

	<u>Balance 2010</u>	<u>Additions/ (Deletions)</u>	<u>Principal Payments/ Amortization</u>	<u>Balance 2011</u>
Debt:				
Loan payable, bank	\$ 4,197,810	\$ -	\$ (4,197,810)	\$ -
State loan payable	3,677,615	-	(3,677,615)	-
2003 Certificates of participation series	37,225,000	-	(15,195,000)	22,030,000
2010A Certificates of participation series	-	33,915,000	-	33,915,000
Total Debt	<u>45,100,425</u>	<u>33,915,000</u>	<u>(23,070,425)</u>	<u>55,945,000</u>
Unamortized loss on 1993 defeasement	(449,673)	-	385,099	(64,574)
Unamortized premium on 2003 COPs	415,219	-	(188,524)	226,695
Unamortized loss on 2003 Refunding	-	(90,850)	5,313	(85,537)
Unamortized defeasance of 2003 COP	-	(1,564,630)	91,499	(1,473,131)
Unamortized interest rate swap premium	-	(723,336)	52,039	(671,297)
Unamortized original issue discount on 2010 COPs	-	(750,959)	30,894	(720,065)
Total Net Debt	\$ 45,065,971	\$ 30,785,225	\$ (22,694,105)	\$ 53,157,091
Less Current Portion	<u>(2,524,386)</u>	<u>2,484,386</u>	<u>(885,000)</u>	<u>(925,000)</u>
Net Long-Term Debt	<u>\$ 42,541,585</u>	<u>\$ 33,269,611</u>	<u>\$ (23,579,105)</u>	<u>\$ 52,232,091</u>

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 8: Long-Term Debt - continued

State Loan Payable

In 1997, the District contracted with the State Water Resources Control Board for a \$7,873,551 20-year loan at 2.8% per annum to assist in financing the construction of capital improvements. The loan was scheduled to mature in 2018; however on August 26, 2010, in conjunction with the issuance of the 2010A Series Certificates of Participation, the \$3,677,615 balance due on State Loan Payable was paid in full. (See 2010A Series Revenue Certificates of Participation below).

2003 Refunding Certificates of Participation Payable

Certificates of participation in the amount of \$47,000,000 were executed on October 16, 2003. The funds were used to refund the District's current outstanding Certificates of Participation captioned 1993 Goleta Water District Refunding Revenue Certificates of Participation and to finance certain improvements to the District's water supply, treatment and distribution systems. In conjunction with the issuance of the \$33,915,000 Series A Revenue Certificates of Participation and in accordance with the District's refunding plan, \$15,874,630 was deposited with an escrow agent to provide for payment when due of all principal and interest with respect to the 2003 Refunded Certificates. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1.6 million. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year ended June 30, 2025 using the straight line method. For financial reporting purposes, the refunded portion of the debt has been considered defeased and therefore removed as a liability from these financial statements. As of June 30, 2011 there was \$13,360,000 of defeased 2003 Certificates of Participation outstanding, to be paid from escrow funds. (See 2010A Series Revenue Certificates of Participation below).

The remaining \$22,030,000 is to be repaid over the remaining fourteen year term. Interest is payable semi-annually on June 1st and December 1st of each year while principal payments are made on December 1st of each year commencing June 1, 2004, with interest rates ranging from 3.5% to 5.25%. The revenue Certificates of Participation are secured by a pledge of District revenues.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 8: Long-Term Debt – continued

2003 Refunding Certificates of Participation Payable - continued

Following are the three capital improvement projects financed from the certificates of participation proceeds:

- Upgrades and improvements to the District’s Corona del Mar Treatment Plant, which was needed to meet state and federal water quality standards;
- Replacement and enlargement of the Patterson Reservoir, which was needed to add additional water storage capacity; and
- Rehabilitation of six Aquifer Storage and Recovery (ASR) wells, which was necessary to meet demand during droughts, peak use periods and emergencies.

Annual debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 925,000	\$ 992,115	\$ 1,917,115
2013	960,000	956,728	1,916,728
2014	995,000	917,628	1,912,628
2015	1,035,000	877,028	1,912,028
2016	1,075,000	834,828	1,909,828
2017-2021	6,085,000	3,443,523	9,528,523
2022-2025	10,955,000	1,210,016	12,165,016
Total	22,030,000	\$ 9,231,866	\$ 31,261,866
Less current portion	(925,000)		
Total Non-Current	\$ 21,105,000		

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 8: Long-Term Debt – continued

Note Payable, Bank

In 2007, the District entered into a financing agreement with Santa Barbara Bank and Trust (SBBT). Under terms of these agreements, SBBT issued a loan in the amount of \$5,000,000 to the District. These proceeds were used for District improvements. The loan was scheduled to mature in fiscal year 2022 and initially had a variable rate based on the 3-Month LIBOR. Concurrent with the note's inception, the District entered into a contract for a derivative instrument that swapped the variable rate for a fixed rate of 4.38%. As of August 26, 2010 in conjunction with the issuance of the 2010A Series Certificates of Participation, the \$4,197,810 bank loan payable and related derivative instrument were paid in full. (See 2010A Series Revenue Certificates of Participation below).

2010 Series A Certificates of Participation Payable

August 26, 2010, the District issued the \$33,915,000 2010 Series A Revenue Certificates of Participation to (i) refund a portion of the 2003 Revenue Certificates of Participation; (ii) to refund outstanding bank loans and related financing costs; (iii) to refund outstanding amounts under a loan contract with the State Water Resources Control Board; (iv) to fund \$5,000,000 of improvements to the water system; (v) to fund a reserve; and (vi) to pay related costs of execution and delivery of the 2010A Series Certificates of Participations. The advanced refunding increased total debt service payments by approximately \$17,827,603 and resulted in an economic loss of approximately \$1,706,930.

Interest is payable semi-annually on March 1st and September 1st of each year commencing March 1, 2011, with interest rates ranging from 4.25% to 5.00%. Principal payments are schedule to commence on September 1, 2025 and continue through September 1, 2035. The revenue certificates of participation are secured by a pledge of District revenues.

The capital improvement projects intended to be financed from \$5,000,000 of the certificates of participation proceeds include:

- Water Treatment Plant Sludgebed Construction;
- Valve Replacement Program;
- ARC Flash Protection;
- Recycled Water Booster Pump Upgrades;
- Cathedral Oaks Highway 101 Overcrossing; and
- San Ricardo Well Rehabilitation.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 8: Long-Term Debt – continued

2010 Series A Certificates of Participation Payable – continued

Annual debt service payments are as follows:

<u>Fiscal Year(s)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 1,649,738	\$ 1,649,738
2013	-	1,649,738	1,649,738
2014	-	1,649,738	1,649,738
2015	-	1,649,738	1,649,738
2016	-	1,649,738	1,649,738
2017-2021	-	8,248,688	8,248,688
2022-2026	2,400,000	8,197,687	10,597,687
2027-2031	13,840,000	6,134,717	19,974,717
2032-2036	17,675,000	2,296,374	19,971,374
Total	33,915,000	\$ 33,126,156	\$ 67,041,156
Less current portion	-		
Total Non-Current	\$ 33,915,000		

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 9: Other Post Employment Benefits Payable (OPEB)

In addition to the pension benefits described in Note 12, the District provides post retirement health care, vision care and dental care benefits to retirees. The District contributes a fixed amount for health care benefits (ranging from 55% to 100% of the premium); a fixed amount for dental care (ranging from 40% to 100% of the premium); and 100% of the premium for vision.

Plan Description - Eligibility

The District administers its post employment benefits plan, a single-employer defined benefit plan. The following requirements must be satisfied in order to be eligible for lifetime post employment medical benefits: (1) Attainment of age 50, 5 years of consecutive full-time service, and (2) Retirement from CalPERS and from the District (the District must be the last employer prior to retirement).

Plan Description – Benefits

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Active plan members	55	58	58
Retirees and beneficiaries receiving Benefits	45	42	38
Total Plan Membership	<u>100</u>	<u>100</u>	<u>96</u>

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 13.2% of the annual covered payroll.

The District funds the plan on a pay-as-you-go basis and records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 9: Other Post Employment Benefits Payable (OPEB) - continued

Annual OPEB Cost and Net OPEB Obligation

The balance at June 30, consists of the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 675,588	\$ 1,991,071	\$ 1,689,740
Interest on net OPEB obligation	143,949	38,997	-
Adjustment to annual required contribution	(134,263)	(44,823)	-
	<u>685,274</u>	<u>1,985,245</u>	<u>1,689,740</u>
Total Annual OPEB Expense			
Change in net OPEB payable obligation:			
Age adjusted contributions made	(307,873)	(406,145)	(389,869)
	<u>377,401</u>	<u>1,579,100</u>	<u>1,299,871</u>
Total Change in Net OPEB Payable Obligation			
OPEB Payable - Beginning of Year	2,878,971	1,299,871	-
	<u>3,256,372</u>	<u>2,878,971</u>	<u>1,299,871</u>
OPEB Payable – Fiscal Year End	\$ 3,256,372	\$ 2,878,971	\$ 1,299,871

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2011 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2011	\$ 685,274	\$ 307,873	44.9%	\$ 3,256,372
2010	\$ 1,985,245	\$ 406,145	20.5%	\$ 2,878,971
2009	\$ 1,689,740	\$ 389,869	23.1%	\$ 1,299,871

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 9: Other Post Employment Benefits Payable (OPEB) - continued

Funded Status and Funding Progress of the Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
6/30/2011	\$ -	\$ 8,151,680	\$ 8,151,680	0.00%	\$ 5,104,324	159.70%
6/30/2010	\$ -	\$ 16,079,140	\$ 16,079,140	0.00%	\$ 5,051,116	318.33%

Actuarial Methods and Assumptions

In FY 2011, the District retained a professional actuary to independently assess the District OPEB liability. The actuarial methods and assumptions were updated, including techniques 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.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point.

Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 60. At retirement, 80% of retirees are assumed to be married and, marital status is adjusted to reflect mortality. Life expectancy was based on the CalPERS mortality for miscellaneous employees. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using the Standard Turnover Assumptions per GASB Statement No. 45 Paragraph 35b.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 9: Other Post Employment Benefits Payable (OPEB) - continued

The following is a summary of 2011 actuarial assumptions and methods used by a professional certified actuary to determine District OPEB obligations:

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	28 years as of the valuation date
Actuarial assumptions:	
Investment rate of return	5.00%
Projected salary increase	3.00%
Inflation - discount rate	3.00%
Individual salary growth	3.00%
Trend	4.00%

As compared to FY 2010, the FY 2011 revision to the OPEB obligations resulted in a \$7,927,460 (49.3%) reduction to Unfunded Actuarial Accrued Liability (UAAL) and a \$1,315,483 (66.1%) reduction in the ARC. The largest contributing factor to these reductions was the change in the assumed investment rate of return, from 3% in FY 2010 to 5% in FY 2011. Consistent with GASB standards, the assumed rate of return reflects the likely yield over a long-term horizon.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 10: Net Assets

Calculation of net assets as of June 30, were as follows:

	<u>2011</u>	<u>2010</u>
Net Investment in Capital Assets:		
Capital assets, not being depreciated	\$ 3,641,125	\$ 3,688,667
Depreciable capital assets	78,877,484	82,533,361
Current:		
Loans payable	-	(689,386)
Certificates-of-participation payables	(925,000)	(1,835,000)
Non-Current:		
Loans payable	-	(7,186,039)
Certificates-of-participation payables, net	(52,232,091)	(35,355,546)
Total Net Investment in Capital Assets	<u>29,361,518</u>	<u>41,156,057</u>
Restricted Net Assets:		
Restricted - cash and cash equivalents	5,280,684	-
Restricted - accrued interest receivable	-	-
Restricted - investments	6,933,350	3,528,267
Accrued interest payable - COPs	(633,938)	(139,034)
Total Restricted Net Assets	<u>11,580,096</u>	<u>3,389,233</u>
Unrestricted Net Assets:		
Non-spendable net assets:		
Water-in-storage inventory	548,636	501,726
Materials and supplies inventory	182,477	204,701
Prepaid Central Coast Water Authority Costs	7,405,649	6,786,216
Prepaid expenses and other deposits	160,571	154,579
Deferred water supply renegotiation costs, net	306,158	336,774
Deferred charges, net	372,449	482,963
Total Non-Spendable Net Assets	<u>8,975,940</u>	<u>8,466,959</u>
Spendable Net Assets are Designated as Follows:		
Undesignated net assets reserve	(1,074,331)	(2,900,175)
Total Spendable Net Assets	<u>(1,074,331)</u>	<u>(2,900,175)</u>
Total Unrestricted Net Assets	<u>7,901,609</u>	<u>5,566,784</u>
Total Net Assets	<u>\$ 48,843,223</u>	<u>\$ 50,112,074</u>

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 11: Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes. Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Actual employee contributions for FY 2011 and 2010 were \$232,827 and \$253,815 respectively. Market value of all plan assets held in trust by the District's three deferred compensation plans at June 30, 2011 and 2010 amounted to \$2,673,484 and \$2,513,216, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net assets.

Note 12: Defined Benefit Pension Plan

Plan Description

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

Funding Policy

The contribution rate for plan members in the CalPERS 2.7% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 12: Defined Benefit Pension Plan - continued

Funding Policy - continued

The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal years 2011, 2010 and 2009, as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2011, 2010 and 2009, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2009	\$ 1,243,094	100%	-	18.722%
2010	\$ 1,389,665	100%	-	19.649%
2011	\$ 1,402,961	100%	-	19.293%

Note 13: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2011, the District participated in the liability and property programs of the ACWA/JPIA as follows:

General and auto liability, and public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit at \$1,000,000 per occurrence. The ACWA JPIA purchased additional excess coverage layers in the amount of \$59 million which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and computer fraud coverage.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 13: Risk Management - continued

The District has purchased Excess Crime Coverage for up to \$1,000,000 per occurrence.

Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis subject to a \$10,000 deductible per occurrence. The ACWA JPIA has purchased coverage for its members with a total policy limit (all members) of \$100 million.

Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.

Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The District's liability limit is \$2 million per accident/disease.

After a sustained period of low claims by the District, ACWA JPIA refunded approximately \$90,000 in February, 2011 as part of a rate stabilization program that is designed to calibrate premiums versus claims for each pooled insurance program. Settled claims have not exceeded any of the coverage amounts in any of the last two fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2011 and 2010. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2011 and 2010.

Note 14: Commitments and Contingencies

Goleta West Conduit Project

The California State Health Department requires that all surface water supplied to customers be filtered and meet certain requirements as part of the treatment process. Currently, the District supplies treated surface water to customers on its Goleta West Conduit. The water is not filtered, does not meet the Health Department's requirements and therefore, cannot be used for domestic consumption. In order to provide potable water to these customers for domestic consumption the District currently provides bottled water. A pipeline, booster pump station and reservoir might be built in the future depending on regulations and requirements of the EPA and State Health Department. The District will complete an analysis of treatment alternatives in fiscal year 2011-2012 to determine necessary system improvements. Such system improvements would provide filtered potable water to these customers which could be used for domestic consumption. The cost of such improvements is estimated to exceed \$23 million.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 14: Commitments and Contingencies – continued

The Cachuma Lake Project - Seismic Safety of Bradbury Dam

On December 19, 1994, the U.S. Bureau of Reclamation (Bureau), the owner of Bradbury Dam, issued a letter indicating that as part of the ongoing Safety of Dams evaluation of Bradbury Dam, the Bureau determined that dam failure would likely occur during a large earthquake. The Bureau further determined that there was a risk to the downstream public should failure occur when the reservoir is above Elevation 750 feet. Immediate actions were needed to reduce this risk. Foundation modifications have been completed, and the reservoir can now be operated safely at Elevation 750 feet, which is the design capacity of the reservoir.

The total cost of the seismic modification project as proposed by the Bureau was \$45.3 million. The Member Units are required to collectively contribute 15% of the project's total cost for a total obligation of \$6.8 million. The amount and manner in which costs are apportioned among Member Units is according to the following: the obligation is split 48.7% municipal and industrial and 51.3% irrigation with a fifty year total repayment period beginning October 2002. The District's share is based on the same 36.25% which is applied to the Cachuma entitlement. The District is required to make annual payments of \$59,765 through October 2015, \$94,847 commencing October 2016 through 2026, and \$35,082 commencing October 2027 through 2051 to finance the project. The District's future obligations are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 59,765
2013	59,765
2014	59,765
2015	59,765
2016	94,847
Thereafter	<u>1,825,520</u>
Total	<u>\$ 2,159,427</u>

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from advances for construction.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 14: Commitments and Contingencies – continued

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would be insignificant.

Goleta Sanitary District Recycled Water Facility

Since 1995, as an environmental sustainability effort, the District has delivered recycled water to certain users in the community. This is done under the Agreement for Construction and Operation of the Goleta Sanitary District/Goleta Water District Wastewater Reclamation Project, by and between the District and the Goleta Sanitary District, dated October 15, 1990, and as amended by Amendment No. 1, Amendment No. 2, and Amendment No. 3 thereto. The Recycled Water Project has a capacity of approximately 3,000 acre-feet per year and the District is currently delivering approximately 1,000 acre-feet per year to the University of Santa Barbara, several golf courses, and other users were previously using potable water for irrigation purposes. Per the agreement, the distribution system is owned and operated by the District, separate from the reclamation plant which is owned and operated by the Goleta Sanitary District. While the District has capitalized the assets associated with the distribution and recognizes the associated depreciation in these financial statements, the financial statements have not included any liability associated with replacing the reclamation plant.

System Development Fees/New Water Supply Charges, Gaviota Coast Conservancy v. Santa Barbara County Local Agency Formation Commission (LAFCO)

- **Nature of the Litigation:** This is a validation proceeding to determine if a 1998 annexation of land for the Dos Pueblos Golf Links into the Goleta Water District followed the law.
- **Management of the Case:** The District has participated actively at each stage of the case with representation by special counsel, Price Postal & Parma supervised by De Lay & Laredo.
- **Status of the Case to Date:** The trial court found against LAFCO and the Real Parties in Interest in April 2009, but the appellate court reversed the decision on April 29, 2010. Petitioners, Gaviota Coast Conservancy and Surfrider Foundation filed a petition for review with the California Supreme Court on June 8, 2010. Review was denied on August 11, 2010. The litigation was concluded in the District's favor with approval of the annexation.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 15: Derivative Instrument

Interest Rate Swap

In 2007, the District entered into an interest rate swap related to its \$5,000,000 variable-rate Santa Barbara Bank and Trust (SBBT) loan as a means to fix interest costs. The objective of the swap was to convert the District's variable-rate loan to a fixed rate of 4.38%. The District terminated the swap agreement August 26, 2010 when it restructured its debt.

Terms: The loan and the swap agreement were to mature on March 21, 2022, and the swap's notional amount of \$5,000,000 matched the principal amount of the SBBT loan. Under the terms of the swap, the District paid the counterparty a fixed payment of 4.38% and received a variable payment calculated as the 3-Month LIBOR less 75 basis points.

Fair Value: When the District terminated the swap agreement on August 26, 2010, the instrument had a negative fair value of \$759,565 because interest rates had declined since the swap was executed. The fair value was estimated using the zero-coupon method, which calculated future net settlement payments, assuming that current forward rates implied by the yield curve correctly anticipated future spot interest rates. The payments were then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swaps.

Credit Risk: At June 30, 2010, the District was not exposed to credit risk because the swap had negative fair value. However, if interest rates had changed such that the fair value of the swap became positive, the District would have been exposed to credit risk in the amount of the swap's fair value.

Termination: Per the terms of the swap agreement, the District or the counterparty were entitled to terminate the swap if either party failed to perform under the terms of the contract or opted to exit the agreement. Termination of the swap caused the District to be liable to the counterparty for an amount equal to the swap's fair value. This liability is being amortized through 2022.

Goleta Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 16: Subsequent Events

New Labor Agreement with Service Employees International Union Local 620 (SEIU)

On August 9, 2011, as a result of negotiations with SEIU the following concessions in the new three-year SEIU Agreement were ratified to introduce a two-tiered retirement program for District workers, similar to programs instituted by other agencies participating in the California Public Employees' Retirement System (CalPERS). Beginning January 1, 2012, new employees will participate in the CalPERS 2.0% @ 55 plan. Also effective January 1, 2012, all employees will begin contributing to their retirement plans. In addition, new employees will contribute more towards their healthcare costs.

Reclassification

Certain amounts in the June 30, 2010 financial statements have been reclassified to conform to current year presentation.

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STATISTICAL INFORMATION SECTION



Goleta Water District

Statistical Section

The statistical section of the Comprehensive Annual Financial Report presents detailed information to provide context, and to help the reader better understand the information contained in the financial statements, note disclosures, and required supplementary information.

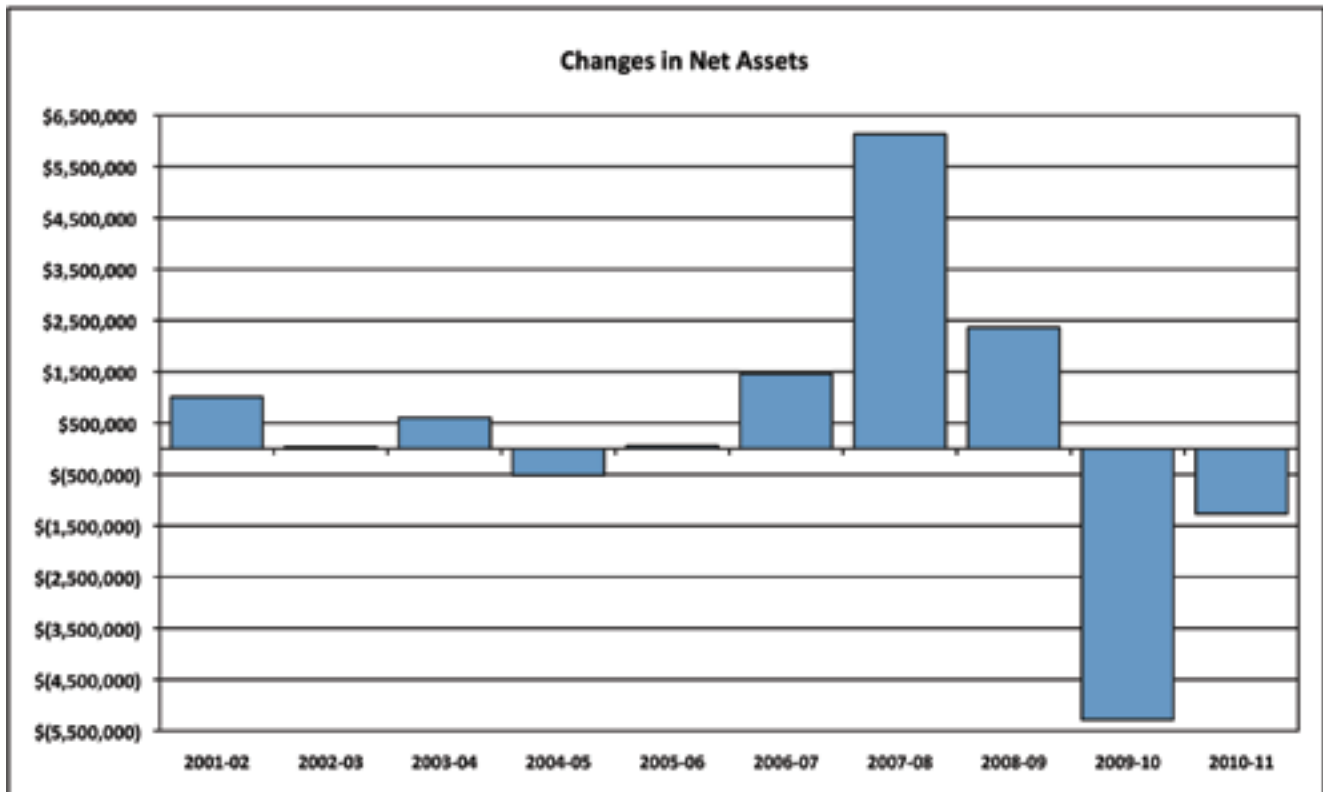
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Helps the reader assess the District’s most significant own-source revenue and water sales.	
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Informs the reader regarding the affordability of District debt and its ability to assume additional debt in the future.	
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Contains staffing levels and infrastructure data to help the reader understand how the District provides its services.	

Goleta Water District
Changes in Net Assets and Net Assets by Component
Previous 10 Fiscal Years

Schedule 1

Description	2001-02	2002-03	2003-04	2004-05	2005-06
Changes in net assets:					
Operating revenues (see schedule 2)	\$ 18,094,133	\$ 17,327,025	\$ 20,712,149	\$ 19,028,366	\$ 19,820,429
Operating expenses (see schedule 3)	(15,373,906)	(16,940,607)	(19,627,514)	(18,143,671)	(18,477,813)
Depreciation and amortization	(2,437,754)	(2,546,021)	(2,860,413)	(2,845,015)	(3,052,138)
Operating income	282,473	(2,159,603)	(1,775,778)	(1,960,320)	(1,709,522)
Net non-operating revenue(expense) (see schedule 4)	(365,772)	274,002	(1,472,899)	(346,585)	307,975
Net income before capital contributions	(83,299)	(1,885,601)	(3,248,677)	(2,306,905)	(1,401,547)
Capital contributions	1,092,535	1,922,468	3,856,288	1,788,501	1,457,127
Changes in net assets	<u>\$ 1,009,236</u>	<u>\$ 36,867</u>	<u>\$ 607,611</u>	<u>\$ (518,404)</u>	<u>\$ 55,580</u>
Net assets by component:					
Invested in capital assets, net of related debt	\$ 28,052,400	\$ 30,596,268	\$ 12,160,238	\$ 18,876,833	\$ 29,061,204
Restricted	2,968,283	2,934,607	23,082,724	19,599,556	10,625,609
Unrestricted	12,228,799	9,755,474	8,650,998	4,899,167	3,744,323
Total net assets	<u>\$ 43,249,482</u>	<u>\$ 43,286,349</u>	<u>\$ 43,893,960</u>	<u>\$ 43,375,556</u>	<u>\$ 43,431,136</u>

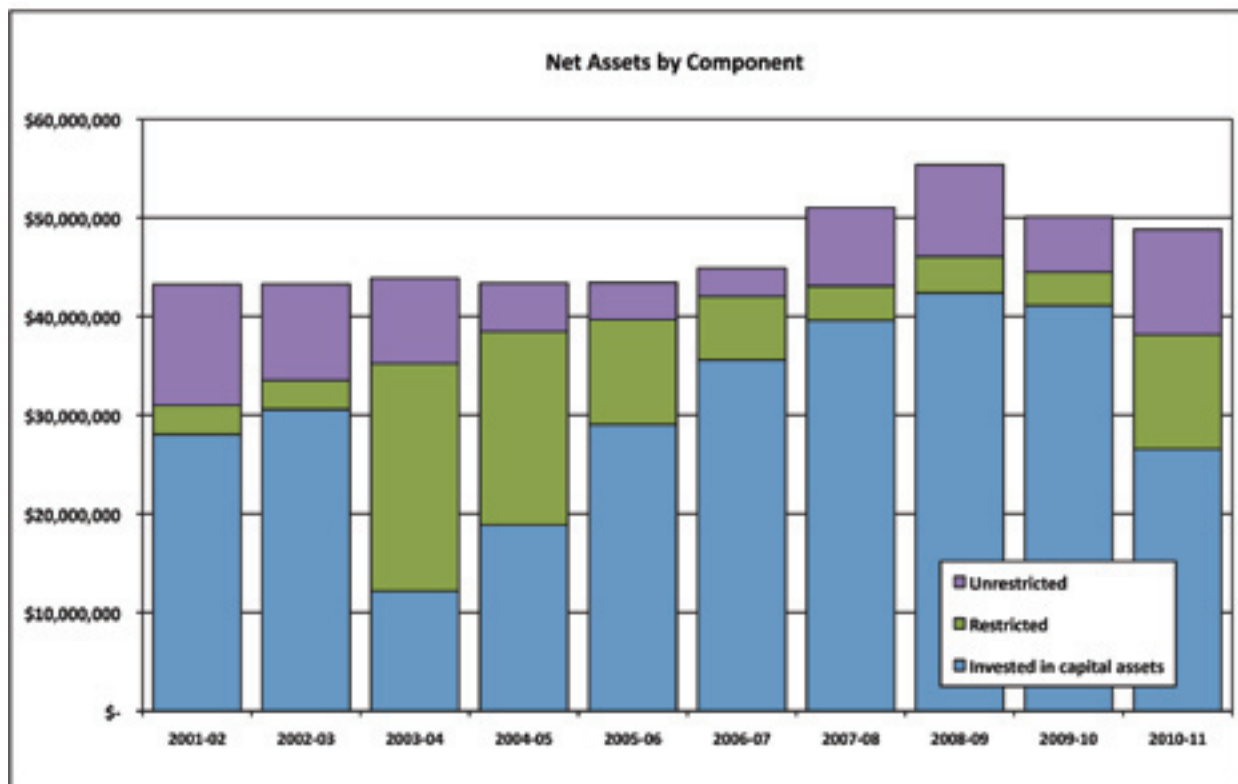


Source: Goleta Water District Audited Financial Statements

Goleta Water District
Changes in Net Assets and Net Assets by Component
Previous 10 Fiscal Years

Schedule 1
(continued)

Description	2006-07	2007-08	2008-09	2009-10	2010-11
Changes in net assets:					
Operating revenues (see schedule 2)	\$ 23,275,841	\$ 26,147,078	\$ 25,245,709	\$ 23,833,852	\$ 22,931,802
Operating expenses (see schedule 3)	(19,099,548)	(20,806,256)	(22,717,232)	(22,829,750)	(19,107,943)
Depreciation and amortization	(3,148,347)	(2,845,876)	(3,951,664)	(4,620,998)	(4,593,454)
Operating income	1,027,946	2,494,946	(1,423,187)	(3,616,896)	(769,595)
Net non-operating revenue (expense) (see schedule 4)	(392,509)	3,541,627	3,510,204	(1,734,390)	(686,214)
Net income before capital contributions	635,437	6,036,573	2,087,017	(5,351,286)	(1,455,809)
Capital contributions	822,157	100,019	277,963	71,614	186,960
Changes in net assets	<u>\$ 1,457,594</u>	<u>\$ 6,136,592</u>	<u>\$ 2,364,980</u>	<u>\$ (5,279,672)</u>	<u>\$ (1,268,849)</u>
Net assets by component:					
Invested in capital assets, net of related debt	\$ 35,613,775	\$ 39,623,667	\$ 42,404,294	\$ 41,121,603	\$ 26,573,609
Restricted	6,419,910	3,459,351	3,663,542	3,389,233	11,580,096
Unrestricted	2,855,045	7,942,304	9,323,911	5,601,238	10,689,518
Total net assets	<u>\$ 44,888,730</u>	<u>\$ 51,025,322</u>	<u>\$ 55,391,747</u>	<u>\$ 50,112,074</u>	<u>\$ 48,843,223</u>

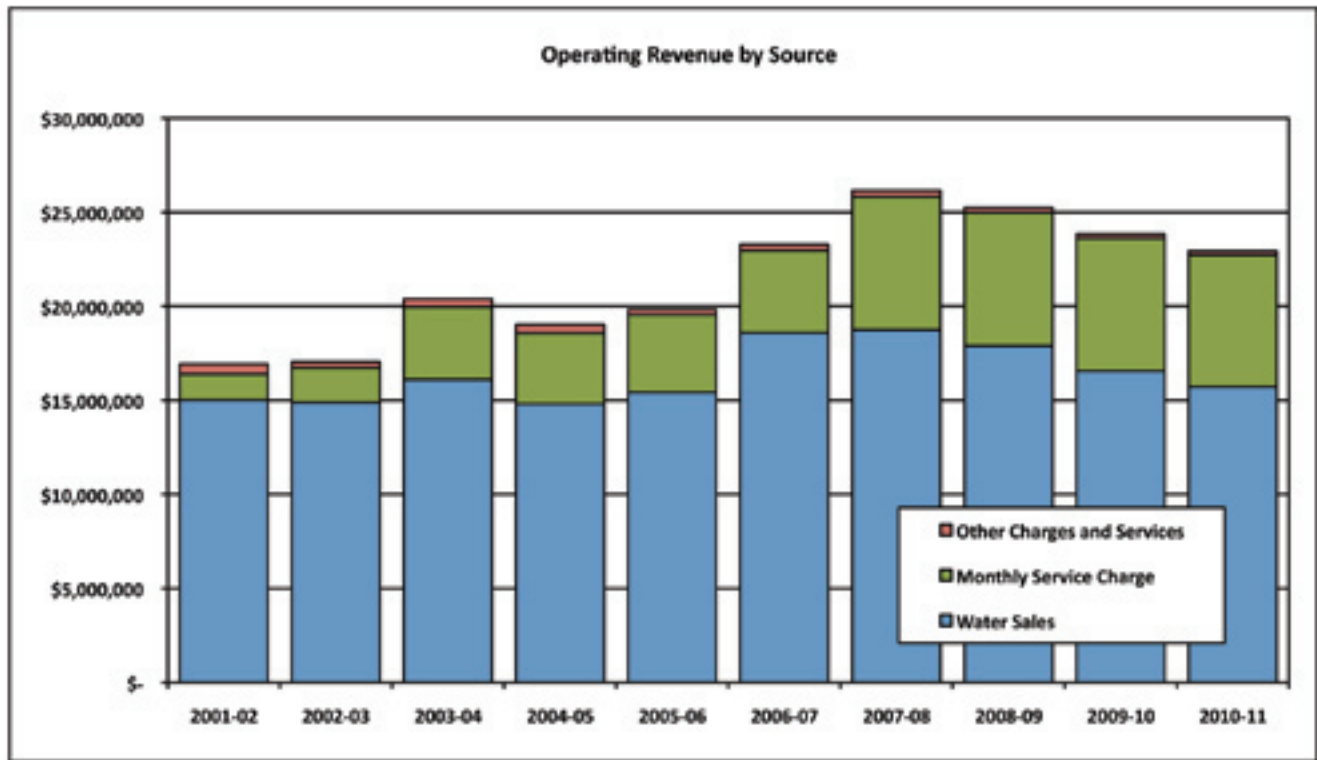


Note: (1) Net of related debt

**Goleta Water District
Operating Revenue by Source
Previous 10 Fiscal Years**

Schedule 2

Fiscal Year	Water Sales	Monthly Service Charge	Other Charges and Services	Total Operating Revenue ⁽¹⁾
2001-02	\$ 15,013,948	\$ 1,379,128	\$ 538,658	\$ 16,931,734
2002-03	14,888,620	1,839,088	313,398	17,041,106
2003-04	16,105,305	3,861,755	417,938	20,384,998
2004-05	14,809,298	3,755,733	463,335	19,028,366
2005-06	15,425,971	4,117,481	276,977	19,820,429
2006-07	18,582,563	4,380,462	312,816	23,275,841
2007-08	18,750,446	7,073,409	323,223	26,147,078
2008-09	17,891,753	7,086,522	267,434	25,245,709
2009-10	16,554,650	7,052,721	226,481	23,833,852
2010-11	15,721,912	6,987,420	222,470	22,931,802



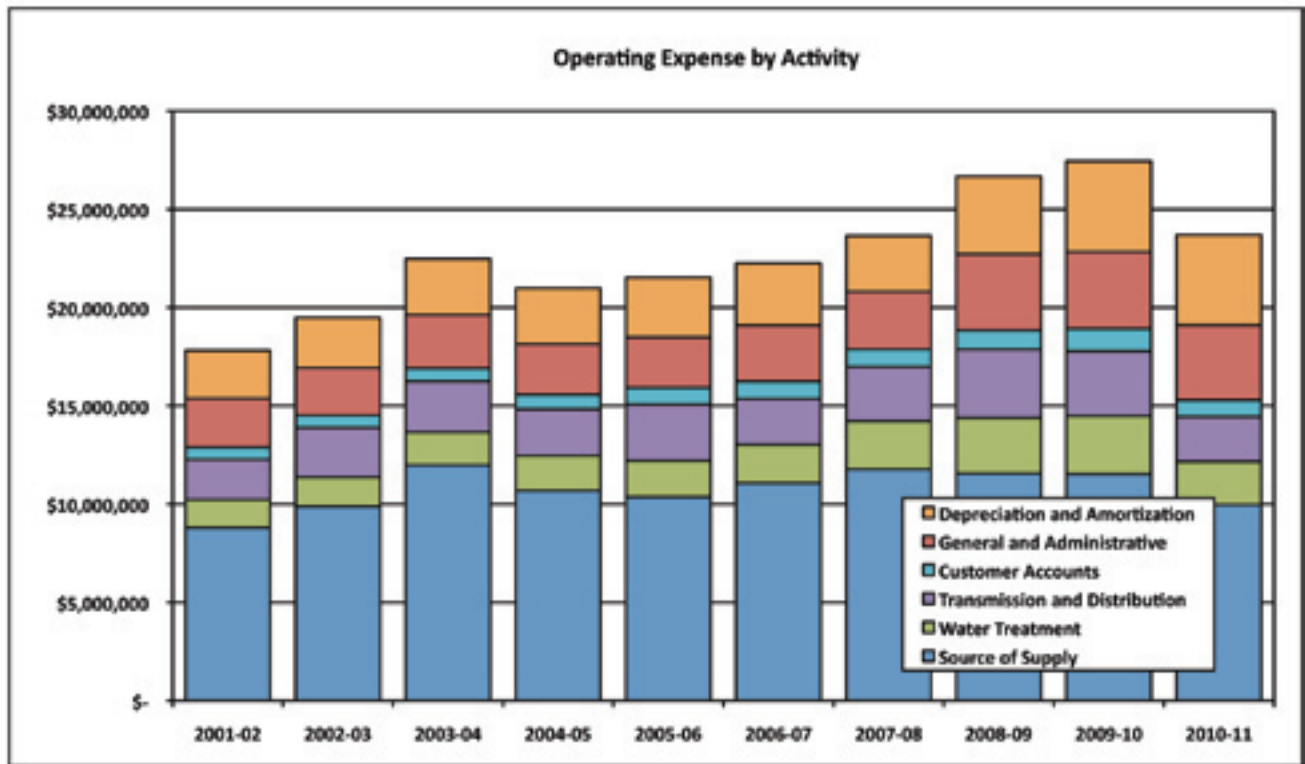
Note: (1) System Development Fees (New Water Supply Charges) were classified as Operating Revenue in FYs 2002, 2003 and 2004 Goleta Water District Audited Financial Statements. See Schedule 4 for New Water Supply Charges.

Source: Goleta Water District Audited Financial Statements

**Goleta Water District
Operating Expenses by Activity
Previous 10 Fiscal Years**

Schedule 3

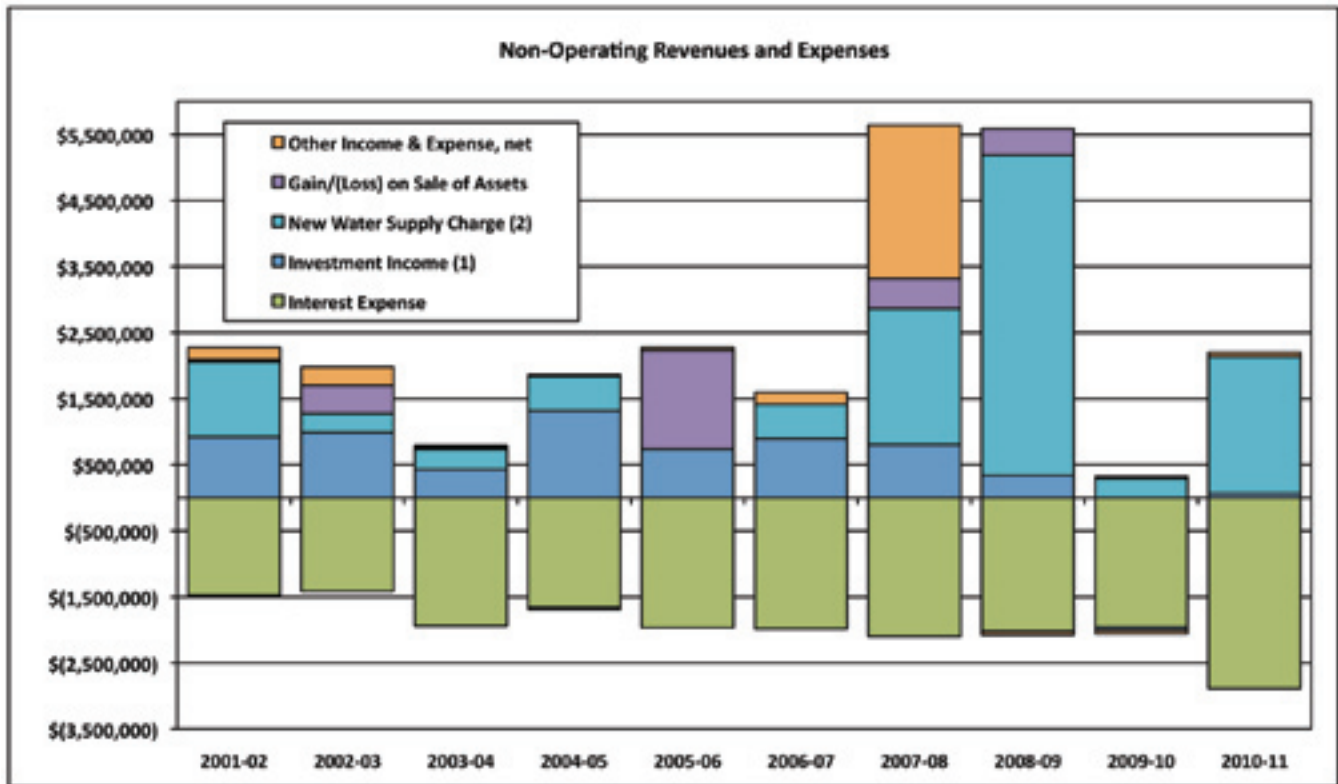
Fiscal Year	Source of Supply	Water Treatment	Transmission and Distribution	Customer Accounts	General and Administrative	Depreciation and Amortization	Total Operating Expenses
2001-02	\$ 8,801,390	\$ 1,425,425	\$ 2,039,971	\$ 620,233	\$ 2,486,887	\$ 2,437,754	\$ 17,811,660
2002-03	9,880,639	1,491,076	2,517,906	623,069	2,427,917	2,546,021	19,486,628
2003-04	11,990,871	1,662,522	2,593,119	661,467	2,719,535	2,860,413	22,487,927
2004-05	10,686,375	1,781,205	2,359,677	736,126	2,580,288	2,845,015	20,988,686
2005-06	10,364,501	1,836,761	2,860,188	857,214	2,559,149	3,052,138	21,529,951
2006-07	11,069,528	1,946,499	2,339,804	882,476	2,861,241	3,148,347	22,247,895
2007-08	11,777,844	2,437,979	2,773,177	891,142	2,926,114	2,845,876	23,652,132
2008-09	11,556,246	2,824,069	3,486,767	973,101	3,877,049	3,951,664	26,668,896
2009-10	11,522,500	2,958,871	3,293,092	1,146,336	3,908,951	4,620,998	27,450,748
2010-11	9,968,271	2,190,570	2,280,486	846,299	3,822,317	4,593,454	23,701,397



**Goleta Water District
Non-Operating Revenues and Expenses
Previous 10 Fiscal Years**

Schedule 4

Fiscal Year	Investment Income ⁽¹⁾	New Water Supply Charge ⁽²⁾	Gain/(Loss) on Sale of Assets	Interest Expense	Other Income & Expense, net	Net Non-operating Revenues/ (Expenses)
2001-02	\$ 921,182	\$ 1,162,399	\$ 5,744	\$ (1,476,893)	\$ 184,195	\$ 796,627
2002-03	988,358	285,919	427,424	(1,419,105)	277,325	559,921
2003-04	428,648	327,151	8,432	(1,939,412)	29,433	(1,145,748)
2004-05	1,319,565	544,117	(9,612)	(1,657,837)	1,299	197,532
2005-06	736,719	-	1,496,104	(1,966,097)	41,249	307,975
2006-07	898,501	515,955	-	(1,985,205)	178,240	(392,509)
2007-08	803,891	2,058,188	456,725	(2,098,927)	2,321,750 ⁽³⁾	3,541,627
2008-09	338,908	4,846,624	402,230	(2,017,803)	(59,755)	3,510,204
2009-10	(43,888)	310,949	12,929	(1,958,678)	(55,702)	(1,734,390)
2010-11	67,164	2,069,370	-	(2,888,359)	65,611	(686,214)



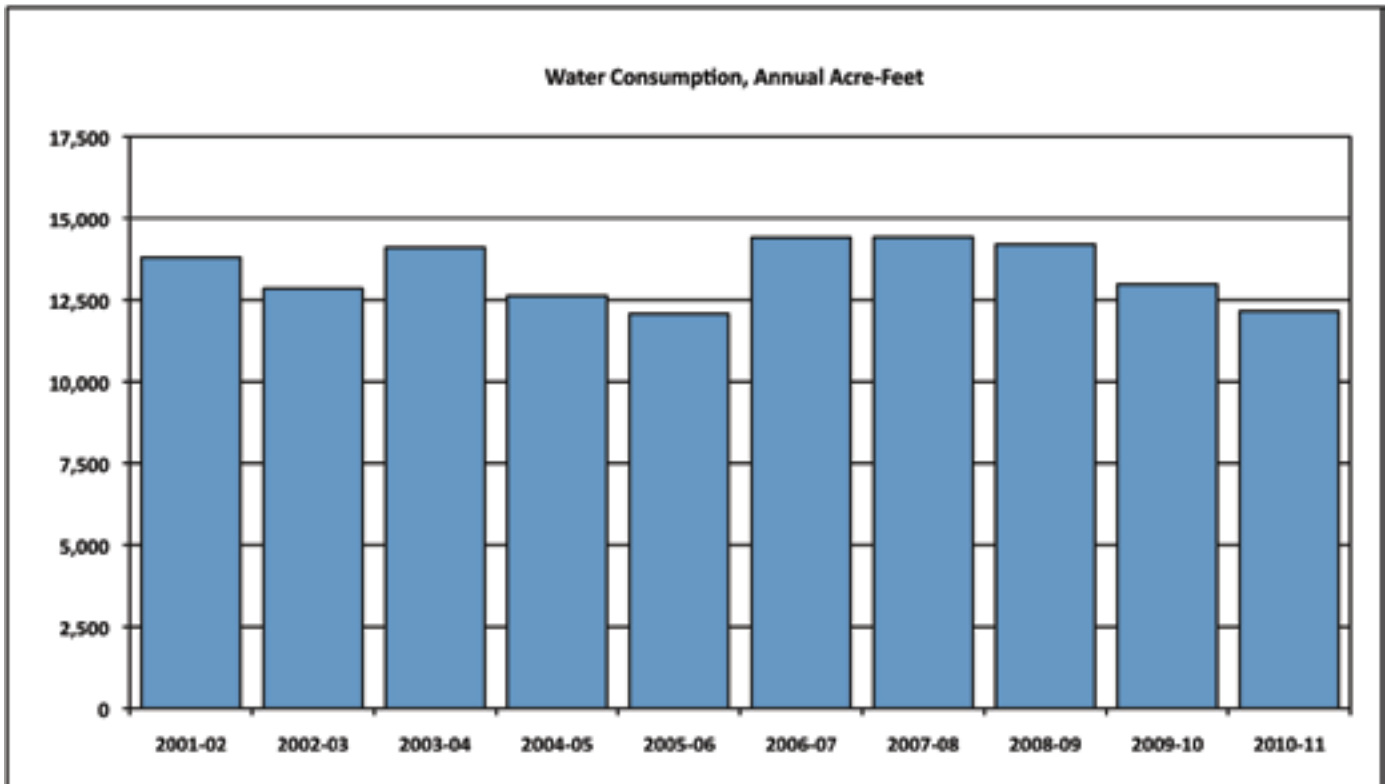
- Notes:**
- (1) Includes interest income as well as realized/unrealized gains and losses on investments.
 - (2) In FYs 2002, 2003 and 2004 System Development Fees (New Water Supply Charges) were classified as Operating Revenue and in FY 2005 as Capital Contribution.
 - (3) Includes a one-time accrual reversal of \$2,184,000 for post employments benefits.

Source: Goleta Water District Audited Financial Statements

**Goleta Water District
Revenue Base
Previous 10 Fiscal Years**

Schedule 5

Fiscal Year	Water Sales (acre feet)
2001-02	13,803
2002-03	12,839
2003-04	14,104
2004-05	12,619
2005-06	12,077
2006-07	14,406
2007-08	14,415
2008-09	14,198
2009-10	12,971
2010-11	12,161

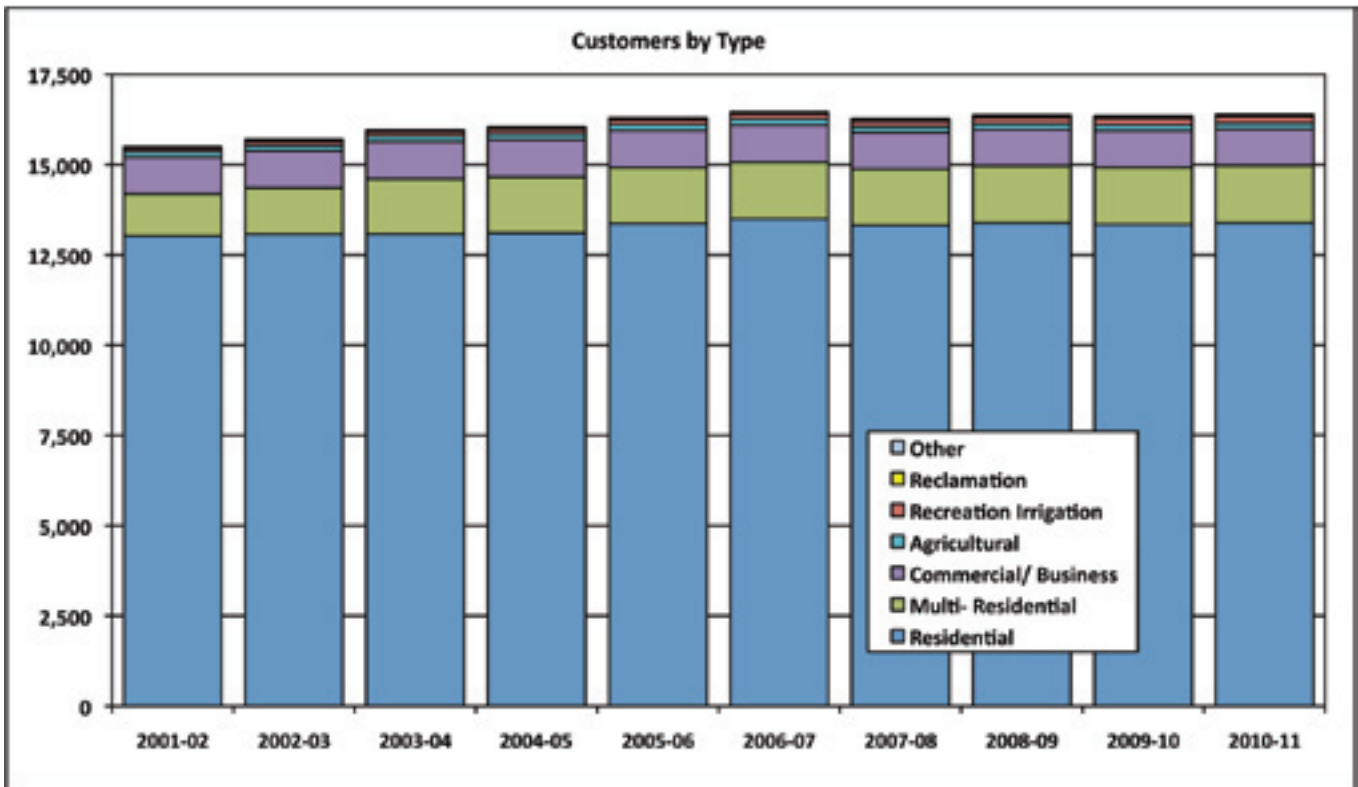


Note: See Schedule 2 "Revenue by Source" for information regarding water sales.

**Goleta Water District
Customers by Type
Previous 10 Fiscal Years⁽¹⁾**

Schedule 6

Fiscal Year	Residential	Multi-Residential	Commercial/ Business	Agricultural	Recreation Irrigation	Reclamation	Other	Total
2001-02	13,023	1,167	1,015	155	111	29	-	15,500
2002-03	13,076	1,278	1,031	155	130	31	-	15,701
2003-04	13,078	1,530	1,026	158	143	30	-	15,965
2004-05	13,109	1,550	1,034	162	153	31	-	16,039
2005-06	13,369	1,551	1,026	164	154	32	-	16,296
2006-07	13,497	1,574	1,028	168	162	30	-	16,459
2007-08	13,317	1,558	1,016	164	180	32	8	16,275
2008-09	13,386	1,582	1,002	165	199	32	7	16,373
2009-10	13,348	1,579	1,010	165	205	32	7	16,346
2010-11	13,386	1,591	1,009	164	212	32	7	16,401



**Goleta Water District
Revenue Rates
Previous 10 Fiscal Years**

Schedule 7

	Fiscal Year									
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Monthly Service Charges ⁽¹⁾										
Meter Size										
5/8" & 3/4" ⁽²⁾	\$ 6.20	\$ 8.20	\$ 16.40	\$ 16.40	\$ 17.71	\$ 18.42	\$ -	\$ -	\$ -	\$ -
Ultra low flow ⁽²⁾	-	-	-	-	-	-	9.21	9.21	9.21	9.21
Low flow ⁽²⁾	-	-	-	-	-	-	18.42	18.42	18.42	18.42
All other ⁽²⁾	-	-	-	-	-	-	27.63	27.63	27.63	27.63
1"	8.40	11.11	22.22	22.22	24.00	24.96	46.06	46.06	46.06	46.06
1 1/2"	13.76	18.20	36.4	36.40	39.31	40.88	92.10	92.10	92.10	92.10
2"	19.55	25.86	51.72	51.72	55.86	58.09	147.38	147.38	147.38	147.38
3"	32.66	43.20	86.40	86.40	93.31	97.04	276.33	276.33	276.33	276.33
4"	49.67	65.69	131.38	131.38	141.89	144.57	460.55	460.55	460.55	460.55
6"	90.62	119.85	239.70	239.70	258.88	269.23	921.09	921.09	921.09	921.09
8"	133.46	176.51	353.02	353.02	381.26	396.51	1,473.76	1,473.76	1,473.76	1,473.76
10"	176.30	233.17	466.34	466.34	503.65	523.79	3,500.72	3,500.72	3,500.72	3,500.72
Water Usage Charges (per HCF) ⁽¹⁾										
User Type										
Urban ⁽³⁾	\$ 3.29	\$ 3.29	\$ 3.29	\$ 3.29	\$ 3.55	\$ 3.71	\$ 3.71	\$ 3.71	\$ 3.71	\$ 3.71
Agricultural	0.95	0.95	0.95	0.95	1.00	1.00	1.00	1.00	1.00	1.00
Recreation										
Irrigation	2.38	2.38	2.38	2.38	2.57	2.68	2.68	2.68	2.68	2.68
Reclaimed	2.01	2.01	2.01	2.01	2.17	2.17	2.17	2.17	2.17	2.17

Notes: (1) Rates as of June 30 of each fiscal year.

(2) Monthly service charges converted to a tiered structure effective July 1, 2007. 5/8" & 3/4" Meters are based on average 12 month water use. Ultra low flow (4 or less HCF), Low flow (greater than 4 but less than 8 HCF), and All other 5/8" & 3/4" meter rates (greater than 8 HCF).

(3) Residential agricultural customers are charged at Urban rate unless usage exceeds 11 HCF per dwelling for any given month.

Source: Goleta Water District Board of Directors-approved rate ordinances

**Goleta Water District
Ten Largest Water Users
Current Fiscal Year versus Fiscal Year 2002-03⁽¹⁾**

Schedule 8

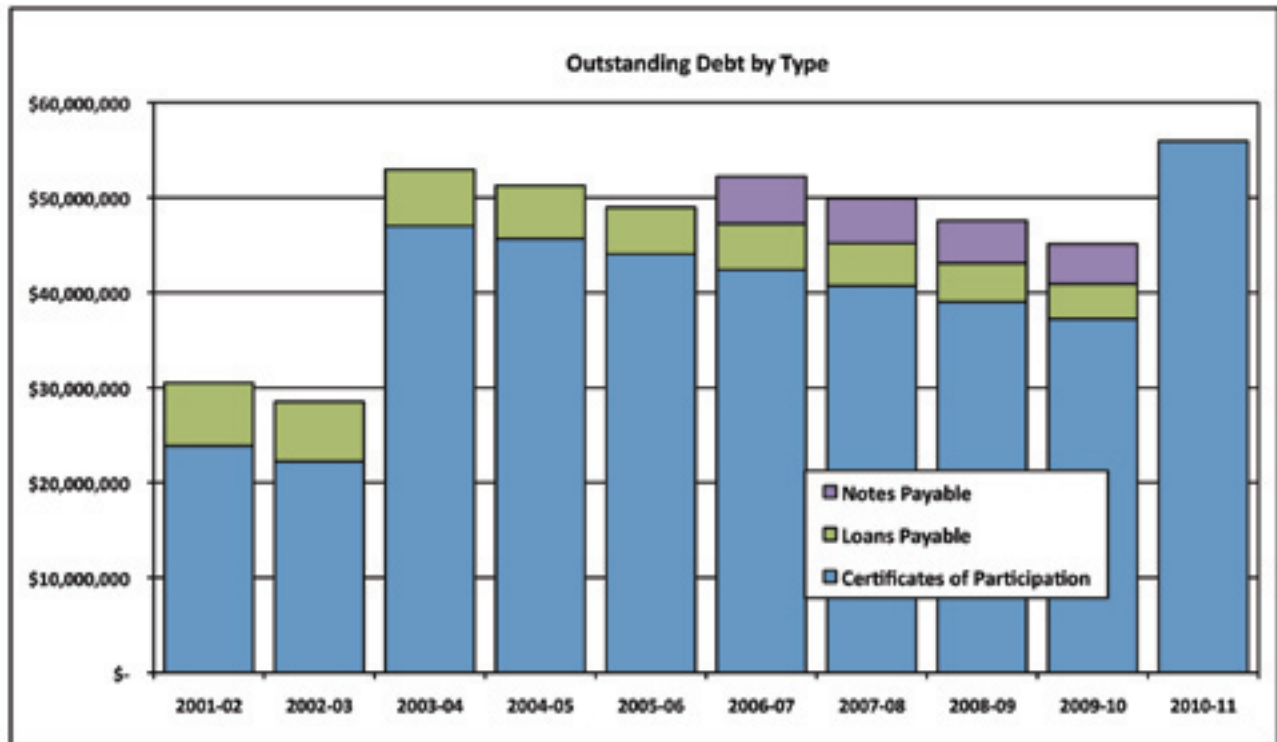
FY 2010-11			FY 2002-03		
Name	Water Sales (Acre Feet)	Percentage of Total Water Purchased	Name	Water Sales (Acre Feet)	Percentage of Total Water Purchased
Univ of Calif at Santa Barbara	805	6.71%	Univ of Calif at Santa Barbara	765	5.48%
Cavaletto Ranches, LLC	390	2.75%	County of Santa Barbara	233	1.67%
Glen Annie Golf Club	289	1.78%	Glen Annie Golf Club	339	2.43%
County of Santa Barbara	255	1.75%	Bacara Resort Services, Inc.	151	1.08%
Sandpiper Golf Course	188	1.37%	Cavaletto Ranches, LLC	375	2.69%
Butera, Roy	144	1.30%	Sandpiper Golf Course	241	1.73%
Por la Mar Nursery	121	1.19%	Ag-Land Service	162	1.16%
Santa Barbara Unified School District	115	1.06%	Rancho Tres Canadas	154	1.10%
Ag-Land Services	115	0.97%	Por La Mar Nursery	149	1.07%
Goleta Union School District	106	0.95%	Devereaux Creek Properties	152	1.09%
Total attributable to ten largest water users:	<u>2,528</u>	<u>19.84%</u>		<u>2,721</u>	<u>19.50%</u>
Total water consumed (acre feet)	<u>12,161</u>	<u>100.00%</u>		<u>12,839</u>	<u>100.00%</u>

Notes: (1) Data for fiscal years prior to 2003 not available.

**Goleta Water District
Ratio of Outstanding Debt by Type
Previous 10 Fiscal Years**

Schedule 9

Fiscal Year	Notes Payable	Certificates of Participation	Loans Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2001-02	\$ -	\$ 23,865,000	\$ 6,626,252	\$ 30,491,252	N/A	N/A
2002-03	-	22,210,000	6,292,298	28,502,298	\$ 925	0.042%
2003-04	-	47,000,000	5,948,994	52,948,994	1,721	0.044%
2004-05	-	45,655,000	5,596,077	51,251,077	1,671	0.054%
2005-06	-	44,040,000	4,922,476	48,962,476	1,594	0.057%
2006-07	4,941,625	42,395,000	4,860,321	52,196,946	1,730	0.061%
2007-08	4,705,415	40,715,000	4,476,921	49,897,336	1,663	0.061%
2008-09	4,457,920	39,005,000	4,082,786	47,545,706	1,560	0.057%
2009-10	4,197,810	37,225,000	3,677,615	45,100,425	1,450	0.062%
2010-11	-	55,945,000	-	55,945,000	1,863	0.063%



Notes: N/A - Data not available

Source: Goleta Water District Audited Financial Statements

**Goleta Water District
Pledged-Revenue Coverage
Previous 10 Fiscal Years**

Schedule 10

Fiscal Year	Operating Revenues	Operating Expenses⁽¹⁾	Net Available Revenues	Debt Service			Coverage Ratio
				Principal⁽²⁾	Interest	Total	
2001-02	\$ 18,094,133	\$ (15,373,906)	\$ 2,720,227	\$ 1,988,954	\$ 1,476,893	\$ 3,465,847	0.78
2002-03	17,327,025	(16,940,607)	386,418	2,078,305	1,419,105	3,497,410	0.11
2003-04	20,712,149	(19,627,514)	1,084,635	343,305	1,939,412	2,282,717	0.48
2004-05	19,028,366	(18,143,671)	884,695	1,697,917	1,657,837	3,355,754	0.26
2005-06	19,820,429	(18,477,813)	1,342,616	1,977,799	1,966,097	3,943,896	0.34
2006-07	23,275,841	(19,099,548)	4,176,293	2,076,332	1,985,205	4,061,537	1.03
2007-08	26,147,078	(20,806,256)	5,340,822	2,299,610	2,098,927	4,398,537	1.21
2008-09	25,245,709	(21,417,361)	3,828,348	2,351,630	2,017,803	4,369,433	0.88
2009-10	23,833,852	(21,250,650)	2,583,202	2,445,281	1,958,678	4,403,959	0.59
2010-11	22,931,802	(18,730,544)	4,201,258	885,000	1,875,997	2,760,997	1.52

Notes: (1) Excludes depreciation expense, interest expense, and non-cash OPEB expense.

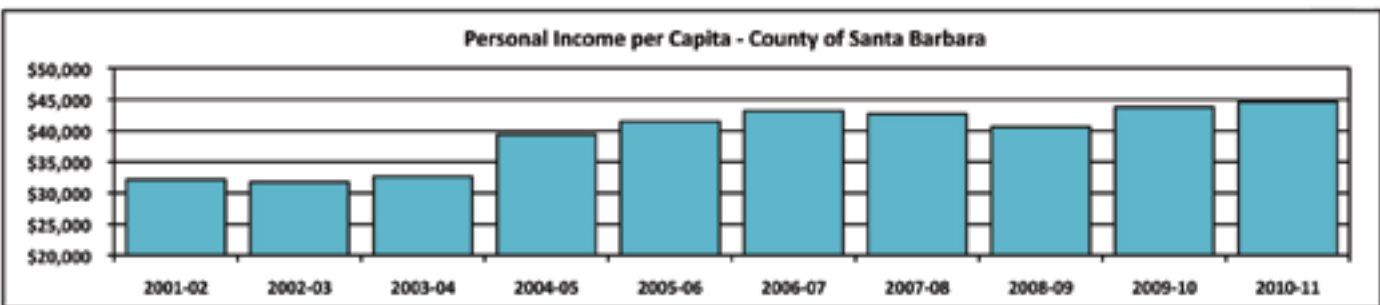
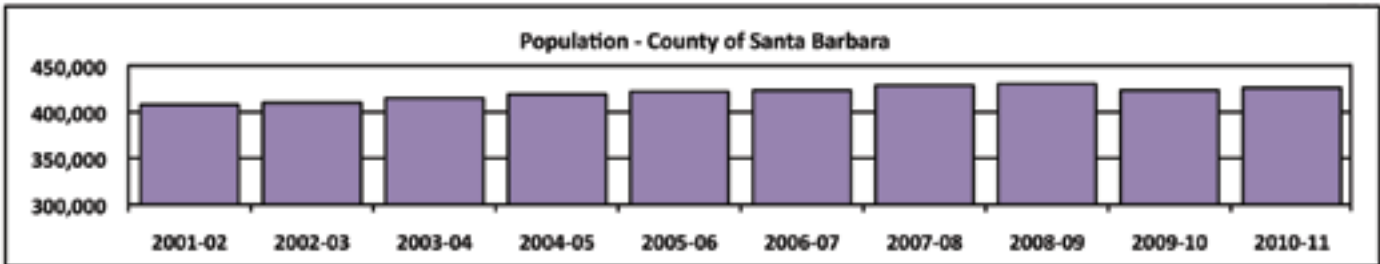
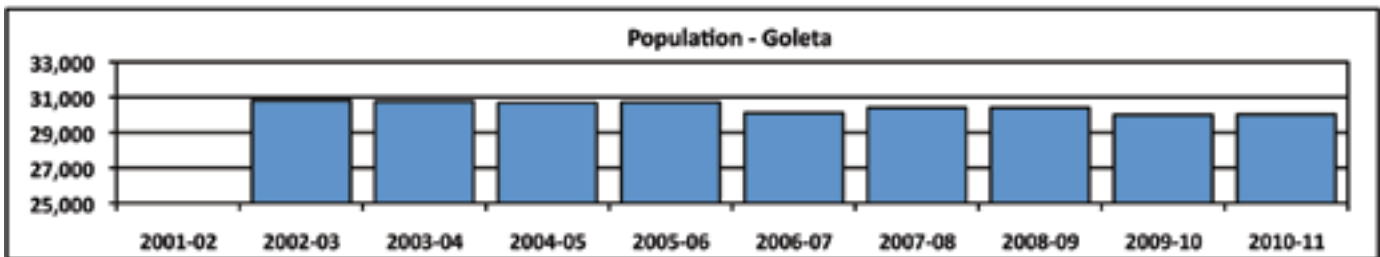
(2) Excludes payments associated with refinancing.

Source: Goleta Water District Audited Financial Statements

**Goleta Water District
Demographics and Economics Statistics
Previous 10 Fiscal Years**

Schedule 11

Fiscal Year	Goleta ⁽¹⁾	County of Santa Barbara ⁽²⁾			
	Population ⁽³⁾	Unemployment Rate	Population	Personal Income (\$ billions)	Personal Income per Capita
2001-02	N/A	3.70%	408,000	\$13.1	\$32,125
2002-03	30,824	3.50%	410,000	\$13.0	31,749
2003-04	30,773	3.40%	415,000	\$13.5	32,636
2004-05	30,679	4.00%	419,000	\$16.5	39,379
2005-06	30,721	3.50%	422,000	\$17.5	41,469
2006-07	30,096	3.80%	423,540	\$18.3	43,160
2007-08	30,400	5.20%	428,655	\$18.3	42,657
2008-09	30,404	8.20%	430,333	\$17.5	40,603
2009-10	30,001	8.80%	423,740	\$19.3	43,779
2010-11 ⁽⁴⁾	30,032	8.90%	426,189	\$19.0	44,600



- Notes:**
- (1) A substantial portion of the District lies within the City; and is therefore a reasonable basis for determining District demographic and economic statistics.
 - (2) County data is updated annually, and is representative of District conditions and experience.
 - (3) The City of Goleta incorporated during the calendar year 2002.
 - (4) Estimated amounts per California Department of Finance.

Source: California Department of Finance and California Labor Market Info

N/A - Information not available

**Goleta Water District
Operating and Capacity Indicators
Previous 10 Fiscal Years**

Schedule 12

District Employees by Department (Actual on Payroll at June 30)

Department	Fiscal Year									
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
General Management	3	3	3	3	3	3	4	2	3	3
Operations Management	2	2	2	2	2	2	2	2	2	2
Water Treatment	12	13	14	13	13	12	14	10	10	10
Distribution	16	16	16	16	14	9	9	16	16	14
Water Quality	0	0	0	0	0	1	2	2	2	2
Warehouse	1	1	1	1	1	1	1	1	1	1
Meter Services	5	5	7	7	7	5	5	5	5	5
Engineering Services	9	11	11	11	11	11	12	11	10	7
Customer Service	2	2	2	2	2	3	3	3	2	1
Accounting and I.T.	4	4	4	4	3	3	3	4	5	4
Payroll	1	1	1	1	1	1	1	1	1	1
Human Resources	1	1	1	1	1	1	1	1	1	1
	56	59	62	61	58	52	57	58	58	51

Other Operating and Capacity Indicators

Fiscal Year	District Area (Square Miles)	Miles of Water Mains	Number of Wells	Number of Fire Hydrants	System Capacity (MGD)
2001-02	45	263	9	1,388	29
2002-03	45	264	9	1,392	29
2003-04	45	264	9	1,392	29
2004-05	45	264	9	1,393	29
2005-06	45	265	9	1,402	29
2006-07	45	265	9	1,410	29
2007-08	45	266	9	1,422	29
2008-09	45	266	9	1,437	29
2009-10	45	270	9	1,448	29
2010-11	45	270	9	1,455	29

Source: Goleta Water District - Administrative Services and Engineering Departments

LIST OF ACRONYMS



LIST OF ACRONYMS AND ABBREVIATIONS

ACWA	Association of California Water Agencies
AFY	Acre Feet per Year
APC	Annual Pension Cost
ARC	Annual Required Contribution
ASR	Aquifer Storage and Recovery
CAFR	Comprehensive Annual Financial Report
CalPERS	California Public Employees' Retirement System
CCRB	Cachuma Conservation and Release Board
CCWA	Central Coast Water Authority
CIP	Capital Improvement Projects
COMB	Cachuma Operation and Maintenance Board
COP	Certificates of Participation
CPA	Cachuma Project Authority
CSDA	California Special Districts Association
CUWCC	California Urban Water Conservation Council
DWR	Department of Water Resources
EPA	Environmental Protection Agency
FASB	Financial Accounting Standards Board
FTE	Full Time Equivalent
FY	Fiscal Year
GASB	Governmental Accounting Standards Board
GIS	Geographic Information System
GSD	Goleta Sanitary District
GWC	Goleta West Conduit
GWD	Goleta Water District
HCF	Hundred Cubic Feet
IBNR	Incurred But Not Reported
IIP	Infrastructure Improvement Plan
JPIA	Joint Powers Insurance Authority
LAFCO	Local Agency Formation Commission
LAIF	Local Agency Investment Fund
MD&A	Management Discussion and Analysis
NWSC	New Water Supply Charge
OPEB	Other Post-Employment Benefits
SEIU	Service Employees International Union
SLGS	State and Local Government Series
SWP	State Water Project
SWRCB	State Water Resources Control Board
UAAL	Unfunded Actuarial Accrued Liability