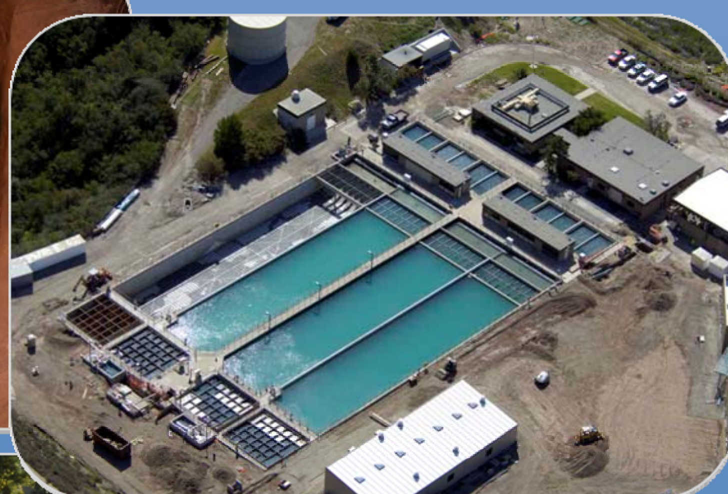
Goleta Water District

Goleta, California

Comprehensive Annual Financial Report

June 30, 2010 and 2009



Comprehensive Annual Financial Report

For the Year Ended

June 30, 2010 and 2009

GOLETA WATER DISTRICT

4699 Hollister Avenue
Goleta, California 93110-1999

Prepared by:
Financial Department
Matthew P. Anderson, CFO
Rebecca H. Cantrell, Accounting Supervisor

Our Mission Statement

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

Board of Directors as of June 30, 2010

Name	Title	Elected/ Appointed	Current Term
Bill Rosen	President	Elected	12/08 - 12/12
Jack Cunningham	Vice President	Elected	12/06 - 12/10
Bert Bertrando	Director	Elected	12/06 - 12/10
Larry Mills	Director	Elected	12/08 - 12/12
Lauren Hanson	Director	Elected	12/08 - 12/12

John McInnes, General Manager
4699 Hollister Avenue
Goleta, California 93110-1999
(805) 964-6761 - www.goletawater.com

Goleta Water District
Annual Financial Report
For the Years Ended June 30, 2010 and 2009

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Introductory Section

January 11, 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, 2010 is submitted as prepared by the District's Administration Department. The report is published to provide to our customers, the Board of Directors, and the investment community detailed information about the financial condition and operating results of the District as measured by the financial activity 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 is accurate in all material respects and includes all disclosures necessary to enable the reader to gain an understanding of the District's financial activities.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – for State and Local Governments (GASB 34) requires that management 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) and the financial statements should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's report.

When reading the audited financial statements it is important to understand the highlights of FY 2009-10, customer service improvements, system upgrades, and cost savings activities. Each year, the Goleta Water District Board of Directors approves a budget as a financial plan, or projection of the revenues and the expenditures for operations, maintenance, administration, debt service and capital improvements associated with delivering high-quality service to customers throughout the year. During FY 2009-10 much was accomplished on behalf of our customers.

Nonetheless, FY 2009-10 was challenging due to significant revenue declines, which required considerable reductions in spending from the original budget. Current year revenues funded all water purchases, operations and maintenance for the production and delivery of domestic and agriculture water, as well as the general and administration costs to assure customers received high quality reliable water service.

Revenues also provided for a few budgeted capital projects including rehabilitating the San Ricardo Well, replacing certain water lines, joining distribution lines over a new highway overcrossing, and supplying service lines to the new Goleta Valley Cottage Hospital. Unfortunately revenues for the year were not adequate to meet annual debt obligations for financing existing water facilities. The District therefore drew from remaining reserves to meet this obligation. In anticipation that revenues would continue to remain low, management successfully restructured District debt in August, 2010 to reduce its short-term cash flow for FY 2010-11.

This debt restructuring was coupled with additional cost-containment efforts during FY 2009-10 and continuing into FY 20010-11. Management reduced expenditures by over $1 million by deferring certain projects, freezing vacancies, reducing overtime, and renegotiating contracts. Results were regularly reported to the Board to demonstrate that customers' money has been well managed. Due to these efforts, the Goleta Water District is enduring a period of economic uncertainty without affecting the reliable delivery of high quality water at cost-effective rates.

California's water supply continues to be a concern and District management is addressing the needs of the Goleta area by ensuring an adequate supply as well as maintaining and expanding upon conservation efforts. The District has led the area in conservation by offering rebate programs for efficient water use, and with the recent adoption of the 2010 Conservation Plan will continue to encourage prudent use of water. Furthermore, the forthcoming Water Supply Management Plan and Urban Water Management Plan will ensure the District's water reserves are effectively maintained for its customers.

The District is proud to provide high quality reliable water service to our customers. Without question, employees of Goleta Water District are focused on earning the confidence and trust of our 16,600 customer accounts, and our goal is to further improve the level of service to our customers, even during the economic downturn.

OTHER INFORMATION

Accounting System – 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 regarding:

(a) The safeguarding of assets against losses from unauthorized use or disposition, and

(b) The reliability of financial records for preparing financial statements and maintaining 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 judgments by management. All internal control evaluations occur within the above framework. We believe that the District's controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

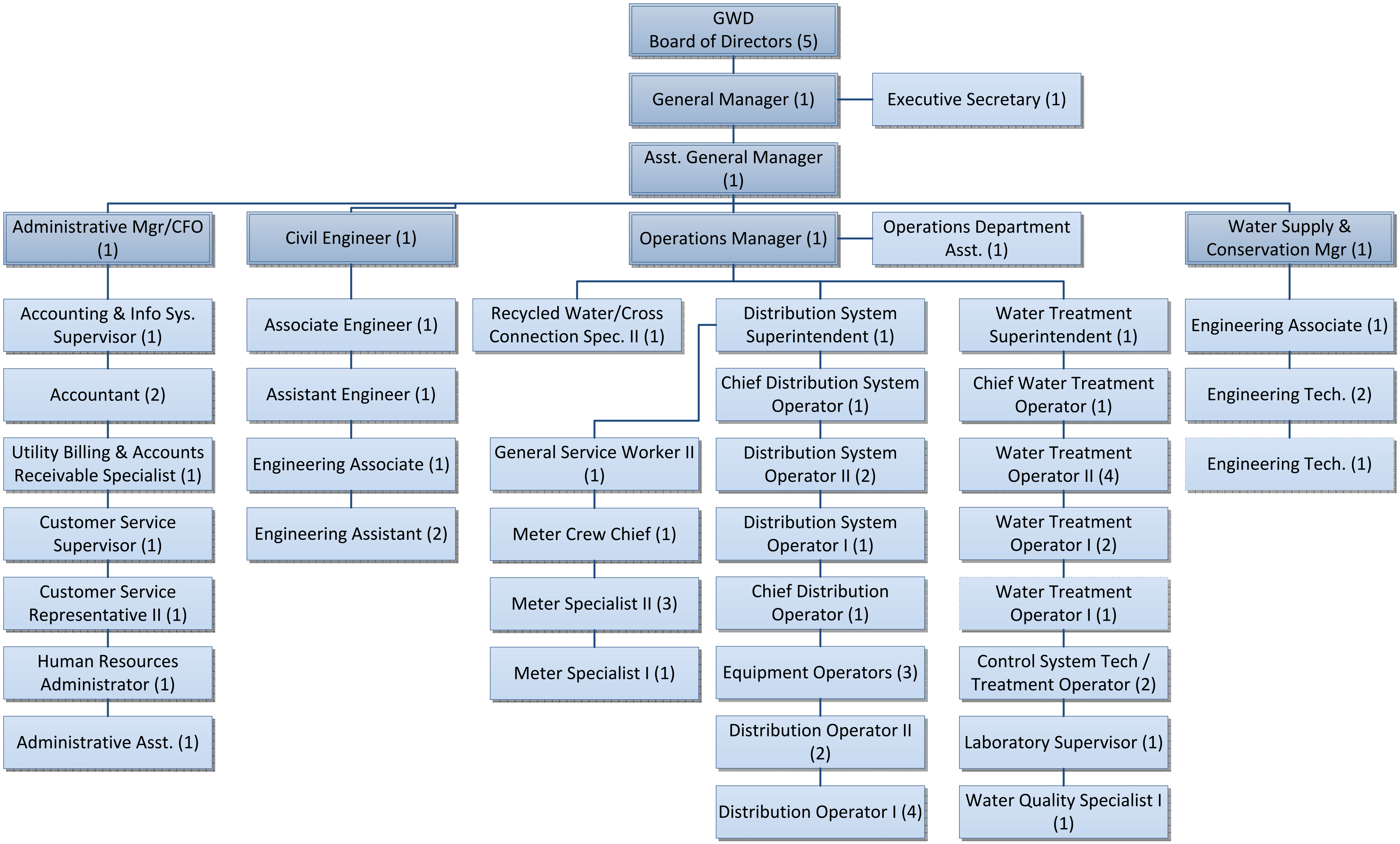
The District requires that its financial statements be audited by a Certified Public Accountant selected by the Board of Directors. This year, the District satisfied this requirement by engaging the qualified firm of Nasif, Hicks, Harris & Co., LLP to perform the audit. Their report and its unqualified ("clean") opinion are included in the financial section of this report.

I would like to specifically thank the members of the Board of Directors for their continued support in the planning and implementation of the Goleta Water District's fiscal policies.

Respectfully submitted,

John McInnes
General Manager

Goleta Water District Organization Chart



Financial Section

NASIF, HICKS, HARRIS & CO., LLP

CERTIFIED PUBLIC ACCOUNTANTS

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December 16, 2010

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 year ended June 30, 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. The financial statements of the Goleta Water District as of June 30, 2009 before restatement, were audited by other auditors whose report dated August 19, 2009, expressed an unqualified opinion on those statements prior to restatement.

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, 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 December 16, 2010, 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.

Management's discussion and analysis and required supplementary information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

The previously issued basic financial statements of the Goleta Water District as of June 30, 2009 have been restated. The previously-issued auditors' report dated August 19, 2009 is not to be relied on because the previously issued financial statements were materially misstated. Please see Note 16: Restatement in the Notes to the Basic Financial Statements that discusses the reasons for the restatement. We audited the adjustments described in Note 16 that were applied to restate the June 30, 2009 basic financial statements. Please see our report on our consideration of internal controls and compliance containing a discussion of the material weakness identified that failed to prevent or detect the misstatement. In our opinion, such adjustments are appropriate and have been properly applied.

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

The following is the Management's Discussion and Analysis (MD&A) of activities and financial performance of the Goleta Water District (the District) which provides an introduction to the financial statements for the fiscal years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows each provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

- The Statement of Net Assets includes the District's investments in resources (assets) and the 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 demonstrates the District's revenue and expenses. This statement measures the financial performance of the District's operations over the year and can be used to determine how well the District recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

- The Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period, is the final required financial statement. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net assets and changes therein. One can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Financial Highlights

- During the fiscal year 2010, the District's net assets decreased 9.5% or $5,279,672 to $50,112,074; down from $55,391,746 at the end of fiscal year 2009 as a result of reductions in water sales and capacity charges; modest increases in operating expenses; a $488,986 adjustment of depreciation expense and the absence of grants and property sales in fiscal year 2010. Details are noted below with specific detail provided in the text of this document.

Statement of Net Assets:

- Effective with fiscal years beginning after June 15, 2009, Governmental Accounting Standards (GASB) Statement Number 53 requires governments to report the fair market termination value of interest rate swap arrangements on Statement of Net Assets. In 2007, the District entered into an interest rate swap related to its $5,000,000 variable-rate debt with Santa Barbara Bank & Trust as a means to lower interest costs. In accordance with GASB Statement Number 53, the District reported the fair market value of the interest rate swap termination value as a deferred interest rate swap cost and an interest rate swap contract liability.

- Current assets increased from $11,648,682 to $12,307,492 or $658,810 during fiscal year 2010, primarily due to a $759,565 reclassification of Deferred Interest Rate Swap Cost from non-current assets.

- Excluding net capital assets, non-current assets decreased during fiscal year 2010 by $1,521,497 primarily as a result of the sale of bonds and the reclassification of the above-mentioned deferred interest rate swap cost from non-current assets to current assets. The bonds sold had a par value of $2,500,000 and generated $2,077,146 cash. Cash generated from the sale of bonds was utilized to fund on-going operations.

- Current liabilities increased during fiscal year 2010 by $749,329 primarily as a result of an increase and reclassification of $759,565 of an interest rate swap contract liability from non-current assets.

- Non-current liabilities decreased during fiscal year 2010 by $1,521,497 with major changes in the following areas:

  - Interest rate swap contract liability decreased $480,922 as a result of a reclassification.
  - Post employment benefits payable increased $1,579,100.
  - Long term obligations for loans and certificates of participation were reduced by payments of $2,524,386.

Statement of Revenues, Expenses and Changes in Net Assets:

- District operating revenues in fiscal year 2010 were $23,833,852 and decreased 5.6% or $1,411,857 when compared to fiscal year 2009 due to a decline in customer water consumption.

- Fiscal year 2010 capacity charges of $310,949 reflected a slowed economy and decreased $4,535,675 when compared to fiscal year 2009.

- Fiscal year 2010 investment income, including interest income and gain on the sale or disposition of District assets was $728,209 lower when compared to fiscal year 2009. Interest income dropped due to lower investment interest rates and reduced cash available for investing. In 2009, surplus District property was sold.

- The District's operating expenses increased 2.9% or $781,852 in 2010 primarily due to increased depreciation in the fiscal year of $669,334. Other Departmental costs increased a modest 0.50% or $112,518 when compared to fiscal year 2009. Other changes in operating expenses are more fully discussed in this document.

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 $50,112,074 and $55,391,746 as of June 30, 2010 and 2009, respectively.

Condensed Statement of Net Assets

	2010	2009	Change
Assets:			
Current assets	$ 12,307,492	$ 11,648,682	$ 658,810
Non-current assets	4,410,323	7,393,001	(2,982,678)
Capital assets, net	86,222,028	89,950,000	(3,727,972)
Total assets	102,939,843	108,991,683	(6,051,840)
Liabilities:			
Current liabilities	$ 6,774,907	$ 6,025,578	$ 749,329
Non-current liabilities	46,052,862	47,574,359	(1,521,497)
Total liabilities	52,827,769	53,599,937	(772,168)
Net assets:			
Net investment in capital assets	41,121,603	42,404,294	(1,282,691)
Restricted for debt service	3,389,233	3,670,054	(280,821)
Unrestricted	5,601,238	9,317,398	(3,716,160)
Total net assets	50,112,074	55,391,746	(5,279,672)
Total liabilities and net assets	**$ 102,939,843**	**$ 108,991,683**	**$ (6,051,840)**

Significant findings in the Statement of Net Assets are noted below:

- Current assets increased during fiscal year 2010 by $658,810 primarily due to a $759,565 reclassification of the Deferred Interest Rate Swap Cost from non-current assets. This deferred asset is offset by an equal 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 decreased during fiscal year 2010 by $1,521,497 primarily as a result of the sale of investment portfolio bonds and the reclassification of deferred interest rate swap cost from non-current assets to current assets. The sale of the bonds resulted generated $2,077,146 cash. Cash generated from the sale of investment portfolio bonds was utilized to support operations.

- Current liabilities increased during fiscal year 2010 by $749,329 primarily as a result of a $759,565 reclassification of the interest rate swap contract liability from non-current assets.

- Non-current liabilities decreased during fiscal year 2010 by $1,521,497 with significant changes in the following areas:

  - Interest rate swap contract liability decreased $480,922 as a result of a reclassification of an accrual for interest rate swap contract liability.
  - Post employment benefits payable increased $1,579,100. In compliance with requirements of GASB 45, the District has elected to accrue unfunded other post employments benefits liabilities over a thirty year period with twenty-eight years remaining. See note 9 for further detail.
  - Long term debt and certificates of participation payments were paid as scheduled in the amount of $2,445,281 during fiscal year 2010. See note 8 for further detail.
  - Net capital assets at June 30, 2010, including both depreciating and non-depreciating assets, was $86,222,028 which represents a decrease of $3,727,972 when compared to net capital assets of $89,950,000 at June 30, 2009. Most of this decrease was due to current year depreciation. The difference is made up of asset additions, transfers or deletions.

- At the end of fiscal year 2010 and 2009, the District showed a positive balance in its unrestricted net assets of $5,601,238 and $9,317,910, respectively. See note 10 for further information on the utilization of net assets in future periods.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2010	2009	Change
Revenues:			
Operating revenues	$ 23,833,852	$ 25,245,709	$ (1,411,857)
Non-operating revenues	369,180	5,640,742	(5,271,562)
Total revenues	24,203,032	30,886,451	(6,683,419)
Expenses:			
Operating expenses	22,829,750	22,717,232	112,518
Depreciation and amortization	4,620,998	3,951,664	669,334
Non-operating expenses	2,103,570	2,130,538	(26,968)
Total expenses	29,554,318	28,799,434	754,884
Net income before capital contributions	(5,351,286)	2,087,017	(7,438,303)
Capital contributions	71,614	277,963	(206,349)
Change in net assets	(5,279,672)	2,364,980	(7,644,652)
Net assets, beginning of year	55,391,746	53,026,766	2,364,980
Net assets, end of year	**$ 50,112,074**	**$ 55,391,746**	**$ (5,279,672)**

Significant findings in the Statement of Revenues, Expenses and Changes Net Assets are noted below:

- The District's net assets decreased by $5,279,672 and increased $2,364,980 for the fiscal years ended June 30, 2010 and 2009, respectively.

- In 2010, the District's total revenues decreased by $6,683,419, due to $1,337,103 in lower water sales as well as uniquely high 2009 capacity charges not recurring in fiscal year 2010. In addition, total expenses increased by $754,884, including an increase in depreciation of $669,334. More detail is provided with the two tables that follow.

Table of Total District Revenues

		2010		2009		Change
Operating revenues:						
Water consumption sales	$	16,554,650	$	17,891,753	$	(1,337,103)
Monthly meter service charge		7,052,721		7,086,522		(33,801)
Other charges and services		226,481		267,434		(40,953)
Total operating revenues		23,833,852		25,245,709		(1,411,857)
Non-operating revenues:						
Interest and investment earnings		-		338,908		(338,908)
Rental revenue – cellular antennas		23,957		23,259		698
Post-employment retirement benefits		-		-		-
Capacity charges		310,949		4,846,624		(4,535,675)
Gain on sale/disposition of capital assets, net		12,929		402,230		(389,301)
Other non-operating revenues, net		21,345		29,721		(8,376)
Total non-operating revenues		369,180		5,640,742		(5,271,562)
Total revenues	**$**	**24,203,032**	**$**	**30,886,451**	**$**	**(6,683,419)**

Significant findings in the Table of Total District Revenues are noted below:

- In 2010, total operating revenue declined $1,411,857 primarily due to a decrease in water consumption sales by $1,337,103. In fiscal year 2010, 12,843 acre-feet of metered water was delivered which was 10.1% or 1,445 acre-feet below 2009 deliveries of 14,288 acre-feet. Cooler and wetter weather conditions, water conservation measures and the effect of the economic downturn have affected current consumption of water.

- Fiscal year 2010 non-operating revenue declined when compared to fiscal year 2009 by $5,271,562.

  - Fiscal year 2010 interest income and investment earnings, when compared to fiscal year 2009, are down $338,908 as a result of the selling investments at a loss; the reduced cash balance available to invest; and lower interest rates.
  - Fiscal year capacity charges declined when compared to the prior fiscal by $4,535,675 due to the recognition of a $4,550,000 capacity charge in 2009. Capacity charges are down due to reduced development in the District's service area during the current economic slowdown.
  - Fiscal year 2010 gains and losses on disposition of capital assets are down $389,301, because the District sold surplus real property in 2009 with no such transactions in 2010.

Table of Total District Expenses

	2010	2009	Change
Operating expenses:			
Source of supply	$ 11,522,500	$ 11,556,246	$ (33,746)
Water treatment	2,958,871	2,824,069	134,802
Transmission and distribution	3,293,092	3,486,767	(193,675)
Customer accounts	1,146,336	973,101	173,235
General and administrative	3,908,951	3,877,049	31,902
Depreciation and amortization	4,620,998	3,951,664	669,334
Total operating expenses	27,450,748	26,668,896	781,852
Non-operating expenses:			
Interest expense – long-term debt	1,958,678	2,017,803	(59,125)
Interest expense and investment losses	43,888	-	43,888
Amortization expense	101,004	112,735	(11,731)
Total non-operating expenses	2,103,570	2,130,538	(26,968)
Total expenses	**$ 29,554,318**	**$ 28,799,434**	**$ 754,884**

Significant findings in the Table of Total District Expenses are noted below:

In 2010, total operating expenses accounted for a $781,852 increase in total expenses.

- 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 Central Coast Water Authority (CCWA) decreased $33,746.

- Fiscal year 2010 depreciation expense is higher than prior year by $669,334 due to corrections in accounting calculations, and because a large number of assets were placed in service in fiscal year 2009.

Table of Capital Assets

	Balance 2009	Additions	Transfers/ Deletions	Balance 2010
Capital assets:				
Non-depreciable assets	$ 2,984,032	$ 1,496,875	$ (792,240)	$ 3,688,667
Depreciable assets	137,904,388	188,392	(38,118)	138,054,662
Accumulated depreciation and amortization	(50,938,420)	(4,582,881)	-	(55,521,301)
Total capital assets, net	**$ 89,950,000**	**$ (2,897,614)**	**$ (830,358)**	**$ 86,222,028**

Significant findings in the Table of Total Capital Assets are noted below:

At the end of fiscal year 2010 and 2009, the District's investment in capital assets amounted to $86,222,028 and $89,950,000 (net of accumulated depreciation), respectively. This investment in capital assets includes land, land rights, water treatment plant, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process. There were few major capital asset additions in fiscal years 2010. In addition, during the year it was discovered that depreciation was not correctly calculated and accumulated depreciation was restated at June 30, 2009 by $488,986. See further detail at Note 5 and 16.

Table of Long Term-Debt

	Balance 2009	Additions	Principal Payments	Balance 2010
Long-term 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	39,005,000	-	(1,780,000)	37,225,000
Total long-term debt	**$ 47,545,706**	**$ -**	**$ (2,445,281)**	**$ 45,100,425**

Significant findings in the Table of Total Debt are noted below:

In 2010, long-term debt decreased by $2,445,281, due to regular principal payments on the District's outstanding debts. See footnote 8 for more detail on the District's long-term debt structure. Subsequent to fiscal year 2010 year end, the District restructured its debt on August 26, 2010. See footnote 17 for further information on the restructuring of the District's debt.

Conditions Affecting Current Financial Position

Management has noted the following items as potential issues that may affect its current financial position in the footnotes to the financial statements as follows:

Note 14 – Commitments and Contingencies

Note 16 – Restatement: we have determined that certain re-statements were necessary to the June 30, 2009 Basic Financial Statements.

Note 17- Subsequent Event: restructuring of debt. The District restricted a portion of its outstanding certificates of participation in August 2010.

Notes to the Basic Financial Statements

The notes 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 the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Administrative Manager/CFO at 4699 Hollister Avenue, Goleta, CA 93110-1999.

GOLETA WATER DISTRICT

Basic Financial Statements

As of June 30, 2010 and 2009

Goleta Water District
Statements of Net Assets
June 30,

ASSETS

	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents	$ 734,052	$ 288,610
Restricted – cash and cash equivalents	-	6,512
Accrued interest receivable	5,284	43,034
Restricted – accrued interest receivable	-	19,182
Accounts receivable – water sales and services, net	3,031,456	3,072,849
Accounts receivable – other	112,040	106,527
Note receivable – current portion	17,873	8,000
Water-in-storage inventory	501,726	626,196
Materials and supplies inventory	204,701	222,935
Deferred interest rate swap cost	759,565	-
Prepaid Central Coast Water Authority source of supply costs	6,786,216	7,181,360
Prepaid expenses and other deposits	154,579	73,477
Total Current Assets	12,307,492	11,648,682
NON-CURRENT ASSETS:		
Investments	-	2,187,283
Restricted – investments	3,528,267	3,787,843
Note receivable – non-current	27,865	30,759
Deferred water supply renegotiation costs, net	336,774	367,390
Deferred charges, net	517,417	538,804
Deferred interest rate swap cost	-	480,922
Capital assets, not being depreciated	3,688,667	2,984,032
Depreciable capital assets	82,533,361	86,965,968
Total Non-Current Assets	90,632,351	97,343,001
TOTAL ASSETS	**$ 102,939,843**	**$ 108,991,683**

See accompanying notes to the basic financial statements.

Goleta Water District
Statements of Net Assets
June 30,

LIABILITIES AND NET ASSETS

	2010	2009
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 691,376	$ 833,916
Accrued wages and related payables	324,705	318,673
Customer advances and deposits	2,063,311	1,972,085
Accrued interest payable on loans payable	73,246	81,093
Accrued interest payable on certificates-of-participation	139,034	143,483
Interest rate swap contract liability	759,565	-
Long-term liabilities – due within one year:		
Compensated absences	199,284	231,047
Loans payable	689,386	665,281
Certificates-of-participation payable	1,835,000	1,780,000
Total Current Liabilities	6,774,907	6,025,578
NON-CURRENT LIABILITIES:		
Long-term liabilities – due in more than one year:		
Interest rate swap contract liability	-	480,922
Compensated absences	597,852	693,141
Post employment benefits payable	2,878,971	1,299,871
Loans payable	7,186,039	7,875,425
Certificates-of-participation payable	35,390,000	37,225,000
Total Non-Current Liabilitites	46,052,862	47,574,359
Total Liabilities	52,827,769	53,599,937
NET ASSETS:		
Net investment in capital assets	41,121,603	42,404,294
Restricted for debt service	3,389,233	3,670,054
Unrestricted	5,601,238	9,317,398
Total Net Assets	50,112,074	55,391,746
TOTAL LIABILITIES AND NET ASSETS	**$ 102,939,843**	**$ 108,991,683**

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,

	2010	2009
OPERATING REVENUES:		
Water consumption sales	$ 16,554,650	$ 17,891,753
Monthly service charge	7,052,721	7,086,522
Other charges and services	226,481	267,434
Total operating revenues	23,833,852	25,245,709
OPERATING EXPENSES:		
Source of supply	11,522,500	11,556,246
Water treatment	2,958,871	2,824,069
Transmission and distribution	3,293,092	3,486,767
Customer accounts	1,146,336	973,101
General and administrative	3,908,951	3,877,049
Total operating expenses	22,829,750	22,717,232
Operating income before depreciation and amortization	1,004,102	2,528,477
Depreciation and amortization	(4,620,998)	(3,951,664)
Operating loss	(3,616,896)	(1,423,187)
NON-OPERATING REVENUE (EXPENSE):		
Interest and investment (loss) earnings	(43,888)	338,908
Rental revenue- cellular antennas	23,957	23,259
Capacity charges	310,949	4,846,624
Interest expense- long-term debt	(1,958,678)	(2,017,803)
Amortization expense	(101,004)	(112,735)
Gain on sale/disposition of capital assets, net	12,929	402,230
Other non-operating revenues, net	21,345	29,721
Total non-operating (loss) revenues, net	(1,734,390)	3,510,204
Net (loss) income before capital contributions	(5,351,286)	2,087,017
CAPITAL CONTRIBUTIONS:		
State capital grant	30,076	225,102
Capital contributions	-	31,628
Connection fees	41,538	21,233
Capital contributions	71,614	277,963
Change in net assets	(5,279,672)	2,364,980
Net Assets, Beginning of Year	55,391,746	53,026,766
Net Assets, End of Year	**$ 50,112,074**	**$ 55,391,746**

See accompanying notes to the basic financial statements.

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

	2010	2009
Cash Flows from Operating Activities:		
Cash receipts from customers for water sales and services	$ 23,960,958	$ 25,461,284
Cash paid to employees for salaries and wages	(6,999,111)	(6,368,390)
Cash paid to vendors and suppliers for materials and services	(14,069,031)	(14,354,972)
Net Cash Provided by Operating Activities	2,892,816	4,737,922
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(893,026)	(3,047,178)
Proceeds from capital grants	30,076	-
Proceeds from connection fees	41,538	-
Proceeds from capital contributions	-	363,166
Proceeds from capacity charges	310,949	4,846,624
Change in unearned – system development fees	-	(4,549,519)
Principal paid on long-term debt	(2,445,281)	(2,351,630)
Interest paid on long-term debt	(1,970,974)	(2,031,131)
Proceeds from the sale of capital assets	12,929	402,230
Net Cash Used in Capital and Related Financing Activities	(4,913,789)	(6,367,438)
Cash Flows from Investing Activities:		
Proceeds from sale of investments	2,446,859	7,421,015
Purchases of investments	-	(7,201,760)
Interest and investment earnings	13,044	357,797
Net Cash Provided by Investing Activities	2,459,903	577,052
Net Increase (Decrease) in Cash and Cash Equivalents	438,930	(1,052,464)
Cash and Cash Equivalents, Beginning of Year	295,122	1,347,586
Cash and Cash Equivalents, End of Year	$ 734,052	$ 295,122
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	$ 734,052	$ 288,610
Restricted assets – cash and cash equivalents	-	6,512
Total Cash and Cash Equivalents	**$ 734,052**	**$ 295,122**

See accompanying notes to the basic financial statements.

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

	2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating Loss	$ (3,616,896)	$ (1,423,187)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Deprecation and amortization	4,620,998	3,951,664
Other non-operating (expenses) revenues	(62,681)	58,060
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable – water sales and services, net	41,393	215,169
Accounts receivable – other	(5,513)	408
Water-in-storage inventory	124,470	15,690
Materials and supplies inventory	18,234	(30,539)
Prepaid Central Coast Water Authority source of supply costs	395,144	1,810
Prepaid expenses and other deposits	(29,099)	89,205
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(142,540)	(28,210)
Accrued wages and related payables	6,032	95,697
Customer advances and deposits	91,226	538,652
Compensated absences	(127,052)	(46,368)
Post employment retirement benefits	1,579,100	1,299,871
Total adjustments	6,509,712	6,161,109
Net Cash Provided by Operating Activities	**$ 2,892,816**	**$ 4,737,922**

	2010	2009
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	$ (131,022)	$ (15,134)

See accompanying notes to the basic financial statements.

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, which spans approximately 32,000 acres, is bound on the south by the ocean and on the north by the foothills of the Santa Ynez Mountains. The District uses 270 miles of pipeline to provide water to approximately 85,000 people. 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.

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.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

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, or the administrative manager under the supervision of 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

   Annually, a controlled quantity of water is purchased by the District and, if not used in the current year, 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 the District's water transmission and distribution system. 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.

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.

Note 1: Reporting Entity and Summary of Significant Accounting Policies - continued
Assets, Liabilities and Net Assets - continued

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 twenty-five years.

12. Deferred Charges

The 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.

13. Compensated Absences

The District’s 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.

Note 1: Reporting Entity and Summary of Significant Accounting Policies - continued
Assets, Liabilities and Net Assets - continued

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. Capacity Charges

Capacity charge revenue is also described as the District's new water supply charge. The purpose is to recover a portion of the costs for developing additional new water supplies necessary to provide such additional service. All new water service shall be subject to the new water supply charges, 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) shall include the amount of the new water supply charge for the new service. The new water supply charge shall be paid prior to issuance of a can and will serve letter or application approval. The formula for determining this charge, described in the District's Code at Appendix A (12), is 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. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Note 2: Cash and Investments

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

	2010	2009
Cash and cash equivalents	$ 734,052	$ 288,610
Restricted – cash and cash equivalents	-	6,512
Investments	-	2,187,283
Restricted – investments	3,528,267	3,787,843
Total Cash and Investments	**$ 4,262,319**	**$ 6,270,248**

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

	2010	2009
Cash on hand	$ 500	$ 500
Deposits with financial institutions	733,552	284,015
Investments	3,528,267	5,985,733
Total Cash and Investments	**$ 4,262,319**	**$ 6,270,248**

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 the District's 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.

Note 2: Cash and Investments - continued

Authorized Investment Types*	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment 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 Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

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, 2010 and 2009, respectively. Of the bank balances, up to $250,000 in 2010 and 2009 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.

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 to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

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

		Remaining Maturity (in Months)			
	Amount	**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**	**$ -**	**$ -**	**$ -**

Investments at June 30, 2009, consisted of the following:

		Remaining Maturity (in Months)			
	Amount	**12 Months or Less**	**13 to 24 Months**	**25 to 60 Months**	**More than 60 Months**
Certificates-of-deposit	$ 262,839	$ 262,839	$ -	$ -	$ -
CIT Group bonds	1,121,643	-	771,529	350,114	-
GE Capital bond	1,065,640	-	-	1,065,640	-
Held by bond trustee:					
Federal Farm Credit Bank	3,525,005	-	-	3,525,005	-
Total	**$ 5,975,126**	**$ 262,839**	**$ 771,529**	**$ 4,940,759**	**$ -**

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, 2010, consisted of the following:

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

Credit ratings at June 30, 2009, consisted of the following:

				S&P Ratings		
Investment Type	**Amount**	**Min Legal Rating**	**Exempt from Disclosure**	**AAA**	**AA-**	**BB-**
Local Agency Investment Fund	$ 10,607	N/A	$ 10,607	$ -	$ -	$ -
Certificates-of-deposit	262,839	N/A	262,839	-	-	-
CIT Group bonds	1,121,643	A *	-	-	-	1,121,643
GE Capital bond	1,065,640	A *	-	-	1,065,640	-
Held by bond trustee:						
Federal Farm Credit Bank	3,525,005	AAA	-	3,525,005	-	-
Total	**$ 5,985,734**		**$ 273,446**	**$ 3,525,005**	**$ 1,065,640**	**$ 1,121,643**

* District Code: A minimum of AA when purchased.

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. 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:

		Reported Amount	
Issuer	**Investment type**	**2010**	**2009**
CIT Group bonds	Medium-term corporate note	$ -	$ 1,121,643
GE Capital bond	Medium-term corporate note	-	1,065,640
Federal Farm Credit Bank	Federal agency securities		3,525,005
Dreyfus Treasury and Agency Cash Management	U.S. Treasury Obligations	3,504,119	

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

The balance at June 30, consists of the following:

	2010	**2009**
Accounts receivable - water sales and services	$ 3,075,804	$ 3,105,741
Allowance for uncollectible accounts	(44,348)	(32,892)
Accounts Receivable - Water Sales, Net	**$ 3,031,456**	**$ 3,072,849**

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.

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

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 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.

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.

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

The District's minimum State water payments for the next five fiscal years and thereafter are summarized below:

Fiscal Year	**Amount**
2011	$ 7,256,637
2012	7,488,359
2013	7,516,215
2014	7,664,543
2015	7,737,738
Thereafter	118,500,729
Total	**$ 156,164,221**

Note 5: Capital Assets

Changes in capital assets for the current 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 and 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 and 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 Accum Depr. and Amort.	(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

In 2010, major capital asset additions during the year include 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.

Note 5: Capital Assets - continued

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

	Balance 2008	Additions/ Transfers	Deletions/ Transfers	Balance 2009
Non-Depreciable Assets:				
Land and land rights	$ 237,161	$ -	$ -	$ 237,161
Construction-in-process	10,482,978	3,047,178	(10,783,285)	2,746,871
Total Non-Depreciable Assets	10,720,139	3,047,178	(10,783,285)	2,984,032
Depreciable Assets:				
Transmission and distribution system	51,034,926	1,271,122	-	52,306,048
Recycled water system	24,343,328	-	-	24,343,328
Water treatment plant and equipment	40,018,898	222,051	-	40,240,949
Wells	2,548,522	5,935,584	-	8,484,106
Pumping equipment	2,105,143	7,936	-	2,113,079
Structures and improvements	3,206,589	-	-	3,206,589
Other plant and equipment	4,269,351	2,940,939	-	7,210,290
Total Depreciable Assets	127,526,757	10,377,632	-	137,904,389
Accumulated depreciation and amortization:				
Transmission and distribution system	(20,919,193)	(1,123,481)	-	(22,042,674)
Recycled water system	(10,834,784)	(813,069)	-	(11,647,853)
Water treatment plant and equipment	(7,833,185)	(964,176)	-	(8,797,361)
Wells	(2,096,691)	(179,688)	-	(2,276,379)
Pumping equipment	(1,571,936)	(31,021)	-	(1,602,957)
Structures and improvements	(1,001,387)	(100,886)	-	(1,102,273)
Other plant and equipment	(2,729,581)	(739,343)	-	(3,468,924)
Total Accum Depr. and Amort.	(46,986,757)	(3,951,664)	-	(50,938,421)
Total Depreciable Assets, Net	80,540,000	6,425,968	-	86,965,968
Total Capital Assets, Net	$ 91,260,139	$ 9,473,146	$ (10,783,285)	$ 89,950,000

In 2009, major capital assets additions during the year include the rehabilitation of the District's transmission and distribution systems mains, pipelines and wells. A significant portion of these additions were constructed by the District and transferred out of construction-in-process upon completion of these various projects.

Note 5: Capital Assets - continued

Construction-In-Process

The District has been 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 are as follows:

The balance at June 30, consists of the following projects:

	2008	2009	2010
Corona Del Mar modifications	$ -	$ -	$ -
Well rehabilitation	5,935,584	-	-
Goleta West conduit repair	209,518	-	-
SCADA Telemetry	732,026	-	-
Document management	1,059,268	-	-
Groundwater basin modeling	183,434	197,499	277,166
GWD/CSB Interconnect project	148,495	149,495	149,997
Vault pipe replacement	129,174	-	-
Operation yard improvements	143,875	-	-
Winchester Canyon Road waterline replacement	101,847	-	-
Los Carneros generating facility upgrades	117,571	515,994	552,754
Geographic Information System	124,679	-	-
Water system mod. - Hollister Business Park	-	130,804	132,273
Cathedral Oaks Hwy 101 overcrossing	-	-	213,209
Water line replacements	-	-	153,910
San Ricardo well rehabilitation	-	142,407	382,179
Various other minor projects <$100,000	1,597,507	1,610,672	1,590,018
Construction-in-Process	**$ 10,482,978**	**$ 2,746,871**	**$ 3,451,506**

Note 6: Deferred Charges

The deferred charges balance relates to the issuance costs of the 2003 Certificates of Participation along with the defeasance costs of the District’s 1993 Certificates of Participation. The balance is being amortized over a twenty year period. The deferred charges net balances are as follows.

The balance at June 30, consists of the following:

	2010	2009
Deferred charges	$ 932,636	$ 1,003,023
Accumulated amortization	(415,219)	(464,219)
Deferred Charges, Net	**$ 517,417**	$ **538,804**

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 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

Changes to compensated absences for 2009, were as follows:

Balance 2008	Earned	Taken	Balance 2009	Current Portion	Long-Term Portion
$ 970,556	754,322	(800,690)	$ 924,188	$ 231,047	$ 693,141

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

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

	Balance 2009	Additions	Principal Payments	Balance 2010	Current Portion
Long-Term Debt:					
Loan payable, bank	$ 4,457,920	$ -	$ (260,110)	$ 4,197,810	$ 272,870
State loan payable	4,082,786	-	(405,171)	3,677,615	416,516
Certificates of participation	39,005,000	-	(1,780,000)	37,225,000	1,835,000
Total Long-Term Debt	$ 47,545,706	$ -	$ (2,445,281)	$ 45,100,425	$ 2,524,386

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

	Balance 2008	Additions	Principal Payments	Balance 2009	Current Portion
Long-Term Debt:					
Loan payable, bank	$ 4,705,415	$ -	$ (247,495)	$ 4,457,920	$ 260,110
State loan payable	4,476,921	-	(394,135)	4,082,786	405,171
Certificates of participation	40,715,000	-	(1,710,000)	39,005,000	1,780,000
Total Long-Term Debt	$ 49,897,336	$ -	$ (2,351,630)	$ 47,545,706	$ 2,445,281

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 is scheduled to mature in 2018. Interest and principal are payable annually on October 27th. Annual debt service requirements on the 1997 State Water Resources Control Board Loan are as follows:

Fiscal Year	Principal	Interest	Total
2011	$ 416,516	$ 102,973	$ 519,489
2012	428,178	91,311	519,489
2013	440,167	79,322	519,489
2014	452,492	66,997	519,489
2015	465,162	54,327	519,489
2016-2018	1,475,100	83,367	1,558,467
Total	3,677,615	$ 478,297	$ 4,155,912
Less current portion	(416,516)		
Total Non-Current	$ 3,261,099		

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. 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 2% to 5.25%. The revenue certificates of participation are secured by a pledge of District revenues. Following are the three capital improvement projects intended to be financed from the certificates of participation proceeds:

Upgrades and improvements to the District's Corona del Mar Treatment Plant, which are needed to meet state and federal water quality standards.

Replacement and enlargement of the Patterson Reservoir, which is needed to add additional water storage capacity.

Note 8: Long-Term Debt - continued

Certificates of Participation Payable – continued

Rehabilitation of six Aquifer Storage and Recovery (ASR) wells, which were necessary to meet demand during droughts, peak use periods and emergencies.

Annual debt service payments are as follows:

Fiscal Year	**Principal**	**Interest**	**Total**
2011	$ 1,835,000	$ 1,627,116	$ 3,462,116
2012	1,915,000	1,552,316	3,467,316
2013	1,985,000	1,479,103	3,464,103
2014	2,060,000	1,398,203	3,458,203
2015	2,145,000	1,314,103	3,459,103
2016-2020	12,105,000	5,153,006	17,258,006
2021-2025	15,180,000	1,941,613	17,121,613
Total	37,225,000	$ 14,465,460	$ 51,690,460
Less current portion	(1,835,000)		
Total Non-Current	$ 35,390,000		

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 is scheduled to mature in fiscal year 2022 and initially had a variable rate based on the 3-Month LIBOR. Simultaneous to this 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%. Principal and interest are payable quarterly on September 21, December 21, March 21 and June 21.

At June 30, 2010, aggregate debt service requirements of the District's debt and net payments (receipts) on the related hedging derivative instrument are as follows:

Fiscal Year	Principal	Interest	Hedging Derivatives, net	Net Cash Flows
2011	$ 272,870	$ 181,932	$ (4)	$ 454,798
2012	286,140	170,055	(4)	456,191
2013	299,920	156,665	(4)	456,581
2014	315,015	143,097	(3)	458,109
2015	330,460	128,853	(3)	459,310
2016-2020	1,911,530	405,419	(3)	2,316,946
2021-2022	781,875	35,079	(1)	816,953
Total	4,197,810	$ 1,221,100	$ (22)	$ 5,418,888
Less current portion	(272,870)			
Total Non-Current	$ 3,924,940			

The above amounts assume that current interest rates on the variable-rate loan and the current reference rate of the hedging derivative instrument will remain the same. As rates vary, the net receipts or payments on the hedging derivative instruments will vary. Note 15 provides detailed information on the District's derivative instrument.

Note 9: Post Employment Benefits Payable

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 60% to 100% of the premium) and 100% of the premium for vision and dental care.

Note 9: Post Employment Benefits Payable - continued

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, and 5 years for 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:

	2010	**2009**	**2008**
Active plan members	58	58	57
Retirees and beneficiaries receiving benefits	42	38	33
Total Plan Membership	**100**	**96**	**90**

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 39.4% 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.

Note 9: Post Employment Benefits Payable - continued

Annual OPEB Cost and Net OPEB Obligation

The balance at June 30, consists of the following:

		2010		2009		2008*
Annual OPEB expense:						
Annual required contribution (ARC)	$	1,991,071	$	1,689,740	$	-
Interest on net OPEB obligation		38,997		-		-
Adjustment to annual required contribution		(44,823)		-		-
Total Annual OPEB Expense		1,985,245		1,689,740		-
Change in net OPEB payable obligation: Age adjusted contributions made		(406,145)		(389,869)		-
Total Change in Net OPEB Payable Obligation		1,579,100		1,299,871		-
OPEB Payable - Beginning of Year		1,299,871		-		-
OPEB Payable - End of Year	$	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 2010 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost		Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation Payable
2010	$	1,985,245	$	406,145	20.5%	$	2,878,971
2009		1,689,740		389,869	23.1%		1,299,871
2008	*	-		-	0.00%		-

* The information for this year is unavailable. GASB No. 45 was implemented in fiscal year 2009.

Note 9: Post Employment Benefits Payable - continued

Funded Status and Funding Progress of the Plan

Required Supplemental Information - 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 Percentage of Covered Payroll ((b-a)/c)
6/30/2010	$ -	$ 16,079,140	$ 16,079,140	0.00%	$ 5,051,116	318.33%

Actuarial Methods and Assumptions

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. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits. Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 57. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on the RP2000 Mortality Table. 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.

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

Valuation date	June 30, 2010
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	29 years as of the valuation date
Actuarial assumptions:	
Investment rate of return	3.00%
Projected salary increase	3.00%
Inflation - discount rate	3.00%
Individual salary growth	3.00%

Note 10: <u>Net Assets</u>

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

	2010	2009
Net Investment in Capital Assets:		
Capital assets, not being depreciated	$ 3,688,667	$ 2,984,032
Depreciable capital assets	82,533,361	86,965,968
Current:		
Loans payable	(689,386)	(665,281)
Certificates-of-participation payables	(1,835,000)	(1,780,000)
Non-Current:		
Loans payable	(7,186,039)	(7,875,425)
Certificates-of-participation payables	(35,390,000)	(37,225,000)
Total Net Investment in Capital Assets	41,121,603	42,404,294
Restricted Net Assets:		
Restricted - cash and cash equivalents	-	6,512
Restricted - accrued interest receivable	-	19,182
Restricted - investments	3,528,267	3,787,843
Accrued interest payable - COPs	(139,034)	(143,483)
Total Restricted Net Assets	3,389,233	3,670,054
Unrestricted Net Assets:		
Non-spendable net assets:		
Water-in-storage inventory	501,726	626,196
Materials and supplies inventory	204,701	222,935
Prepaid Central Coast Water Authority Costs	6,786,216	7,181,360
Prepaid expenses and other deposits	154,579	73,477
Deferred water supply renegotiation costs, net	336,774	367,390
Deferred charges, net	517,417	538,804
Total Non-Spendable Net Assets	8,501,413	9,010,162
Spendable Net Assets are Designated as Follows:		
Undesignated net assets reserve	(2,900,175)	307,236
Total Spendable Net Assets	(2,900,175)	307,236
Total Unrestricted Net Assets	5,601,238	9,317,398
Total Net Assets	$ 50,112,074	$ 55,391,746

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. Market value of all plan assets held in trust by the District's three deferred compensation plans at June 30, 2010 and 2009 amounted to $2,513,216 and $2,586,444, 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.

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 2009, 2008 and 2007, 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 2009, 2008 and 2007, 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
2007-2008	$ 1,134,753	100%	-	17.863%
2008-2009	$ 1,243,094	100%	-	18.722%
2009-2010	$ 1,389,665	100%	-	19.649%

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, 2010, 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 coverages.

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.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2010, 2009 and 2008. 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, 2010, 2009 and 2008.

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. These system improvements would provide filtered potable water to these customers from the Corona Del Mar Water Treatment Plant which could be used for domestic consumption. The cost is expected to exceed twenty three million dollars.

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 is $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:

Fiscal Year		**Amount**
2011	$	59,765
2012		59,765
2013		59,765
2014		59,765
2015		59,765
Thereafter		1,980,137
Total	**$**	**2,278,962**

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 the District's reserves and advances for construction.

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/Capacity Charges

Gaviota Coast Conservancy v. Santa Barbara County Local Agency Formation Commission (LAFCO)

1) 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.

2) Progress 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 has now been concluded in the District's favor with approval of the annexation.

3) 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.

Note 14: Commitments and Contingencies - continued

Comstock Homes v. Goleta Water District

1. Nature of the Threatened Litigation: At a meeting of the Water Management and Long Range Planning Committee on November 19, 2009 while discussing the Preliminary Conditions Letter for the Village at Los Carneros, legal counsel for the Applicant, Comstock Homes, threatened litigation if the District included New Water Supply Charge and allocation conditions.

2. Progress on the Case to Date: Counsel has done extensive research on similar agreements and litigation, written various memos, and consulted with the Board in closed session to discuss the issues and options available for resolution.

3. Management of the Case: Comstock changed his project and filed a new application on April 8, 2010. Staff issued a new Preliminary Conditions Letter on August 20 which was appealed on September 17, 2010. The parties have been in negotiations since to amicably resolve their differences through a formal agreement. If terms cannot be agreed upon, the Board of Directors will hear an appeal.

4. Evaluation of the likelihood of an unfavorable outcome and an estimate of the amount or range of potential loss: The underlying agreement from 1986 calls for arbitration to resolve any disputes. The potential monetary loss to the District would be the expenses of arbitration as assessed against the parties to be determined by the arbitrators with the losing side bearing either all or the greater burden of the costs of arbitration. The District has not budgeted for this contingency.

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 is to convert the District's variable-rate loan to a fixed rate of 4.38%.

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

Fair Value. At June 30, 2010 and 2009, the swap has a negative fair value of $759,565 and 480,922, respectively, because interest rates have declined since the swap was executed. The fair value was estimated using the zero-coupon method, which calculates future net settlement payments, assuming that current forward rates implied by the yield curve correctly anticipate future spot interest rates. The payments are 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 on the swaps.

Credit Risk. At June 30, 2010 and 2009, the District was not exposed to credit risk because the swap had negative fair value. However, should interest rates change such that the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the swap's fair value.

Termination Risk. The District or the counterparty may terminate the swap if either party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate loan will no longer carry a fixed interest rate. Also, if at the time of termination, the swap has a negative fair value, the District would be liable to the counterparty for an amount equal to the swap's fair value. See Note 17.

Note 16: Restatement

Management has determined that certain non-cash restatements were necessary. Effective June 30, 2008 cumulative depreciation expense was overstated by $1,225,731 and contributed capital assets were understated by $775,713. Net assets at July 1, 2008 have been restated as follows:

Net Assets at 6/30/08, as previously reported	$ 51,025,322
Restatement of cumulative depreciation expense	1,225,731
Restatement for contributed capital	775,713
Net Assets at 7/1/08 as restated	$ 53,026,766

Management further determined that the change in net assets for the year ended June 30, 2009 had been overstated by $946,635 by an error in the computation of the liability for Other Post Employment Benefits (OBEB) and by $488,986 from an error in the computation of depreciation expense. The change in net assets for the year ended June 30, 2009 and the net asset balance at June 30, 2009 have been restated:

Net Assets at 6/30/08 as restated	$ 53,026,766
Change in net assets, as previously reported for the year ended June 30, 2009	3,798,061
Restatement of OPEB liability	(946,635)
Restatement of depreciation expense	(488,986)
Other, net	2,540
Change in net assets for the year ended June 30, 2009, as restated	2,364,980
Net assets at 6/30/09 as restated	$ 55,391,746

Note 17: Subsequent Events

2010 Refunding Revenue Certificates of Participation

Certificates of participation in the amount of $33,915,000 were executed on August 26, 2010. The funds were used to refund the District’s current outstanding certificates of participation captioned *2003 Goleta Water District Refunding Revenue Certificates of Participation* and to finance certain improvements to the District’s water supply, treatment and distribution systems. Interest will be payable semi-annually on March 1 and September 1 of each year while principal payments are made on September 1 of each year commencing September 1, 2025, with interest rates ranging from 4.25% to 5.00%. The revenue certificates of participation will be secured by a pledge of District revenues.

Note 17: Subsequent Events - continued

Termination of Derivative Instrument

On August 26, 2010, as a result of the 2010 Refunding Revenue Certificates of Participation, the Santa Barbara Bank and Trust loan was paid in full. As a result, the interest rate swap related to this loan terminated. Because, at the time of termination, the swap had a negative fair value, the District was liable to the counterparty for the amount of $759,565, which was the swap's fair value at that date.

Reclassification

Certain amounts in the June 30, 2009 financial statements have been reclassified to conform to current year presentation.

Statistical Information Section

Goleta Water District
Statistical Section

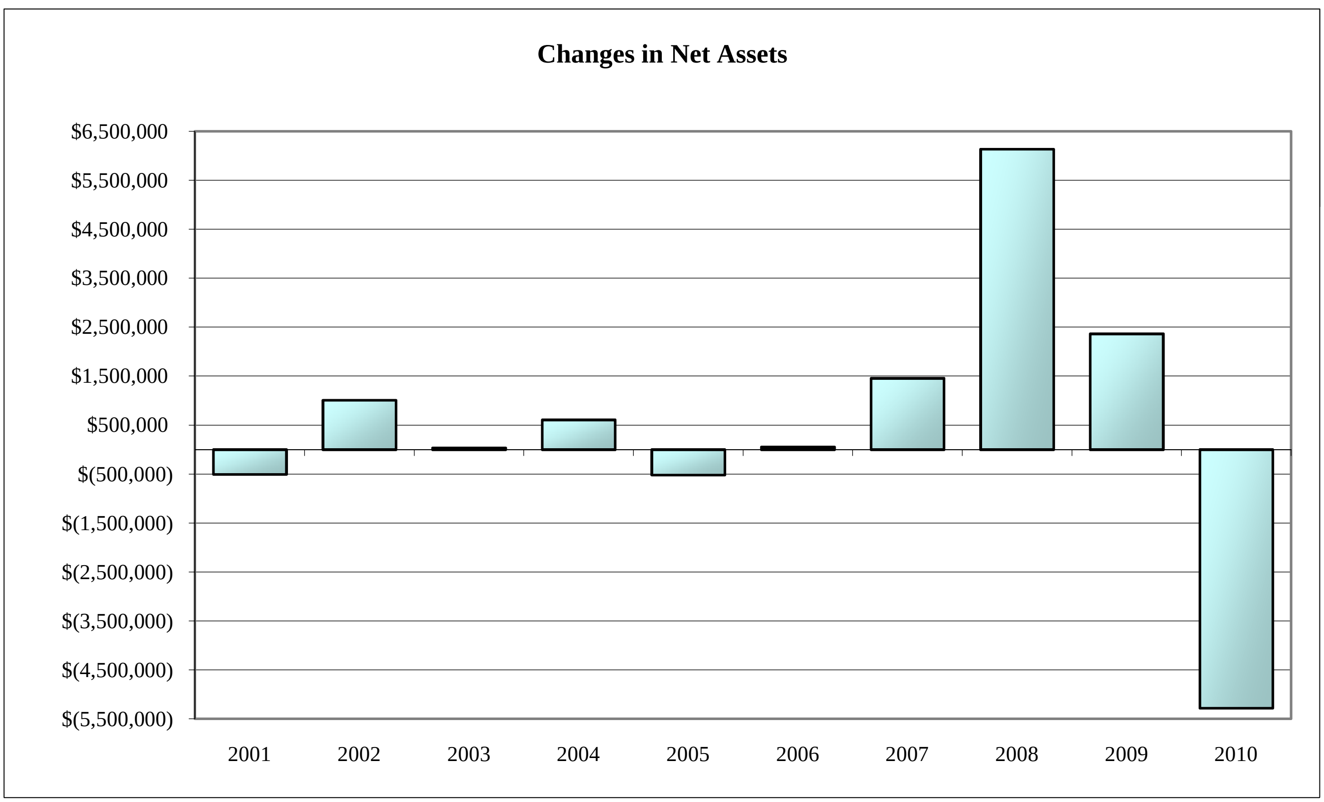
The statistical section of the District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information contained in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Table of Contents

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

Schedule 1

	Fiscal Year 2001	2002	2003	2004	2005
Changes in net assets:					
Operating revenues (see schedule 2)	$ 16,560,070	$ 18,094,133	$ 17,327,025	$ 20,712,149	$ 19,028,366
Operating expenses (see schedule 3)	(15,451,226)	(15,373,906)	(16,940,607)	(19,627,514)	(18,143,671)
Depreciation and amortization	(2,173,876)	(2,437,754)	(2,546,021)	(2,860,413)	(2,845,015)
Operating income	(1,065,032)	282,473	(2,159,603)	(1,775,778)	(1,960,320)
Net non-operating revenue(expense) (see schedule 4)	195,718	(365,772)	274,002	(1,472,899)	(346,585)
Net income before capital contributions	(869,314)	(83,299)	(1,885,601)	(3,248,677)	(2,306,905)
Capital contributions	365,372	1,092,535	1,922,468	3,856,288	1,788,501
Changes in net assets	$ (503,942)	$ 1,009,236	$ 36,867	$ 607,611	$ (518,404)
Net assets by component:					
Invested in capital assets, net of related debt	$ 24,786,948	$ 28,052,400	$ 30,596,268	$ 12,160,238	$ 18,876,833
Restricted	2,968,789	2,968,283	2,934,607	23,082,724	19,599,556
Unrestricted	14,484,509	12,228,799	9,755,474	8,650,998	4,899,167
Total net assets	$ 42,240,246	$ 43,249,482	$ 43,286,349	$ 43,893,960	$ 43,375,556

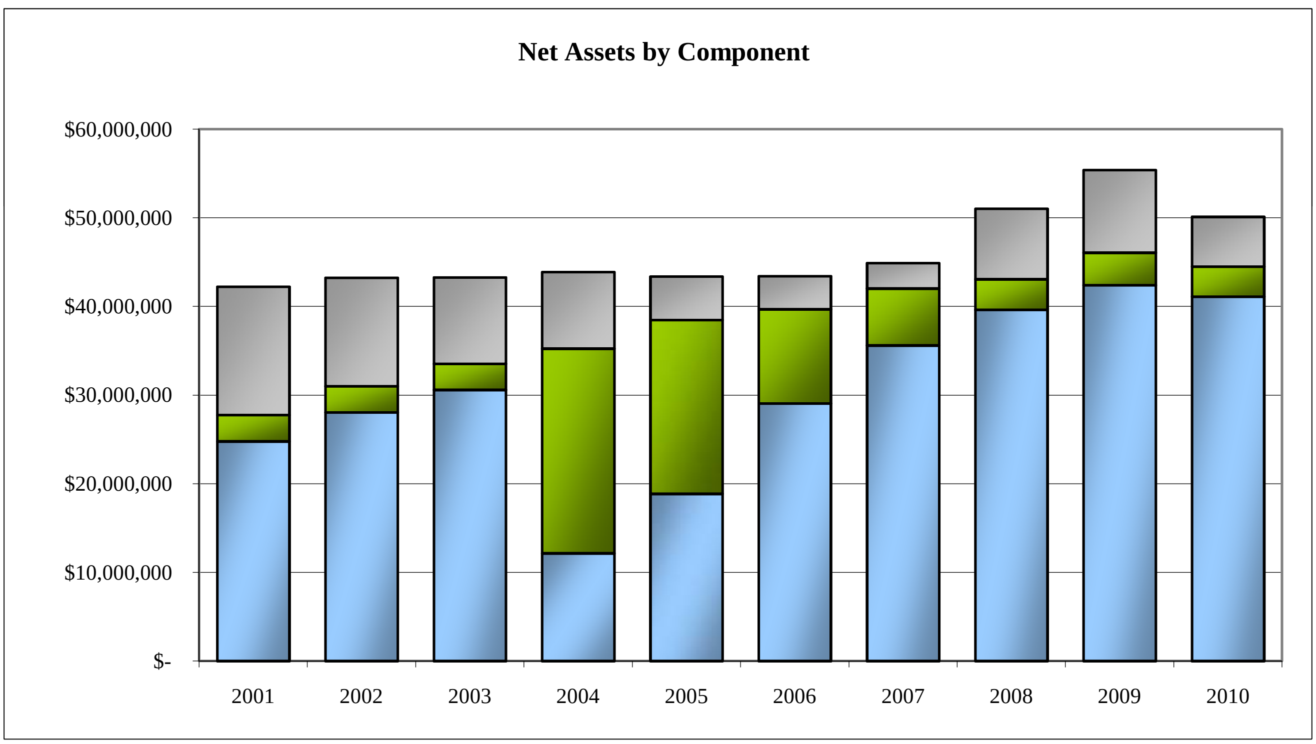


Source: Goleta Water District Audited Financial Statements

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

Schedule 1
(continued)

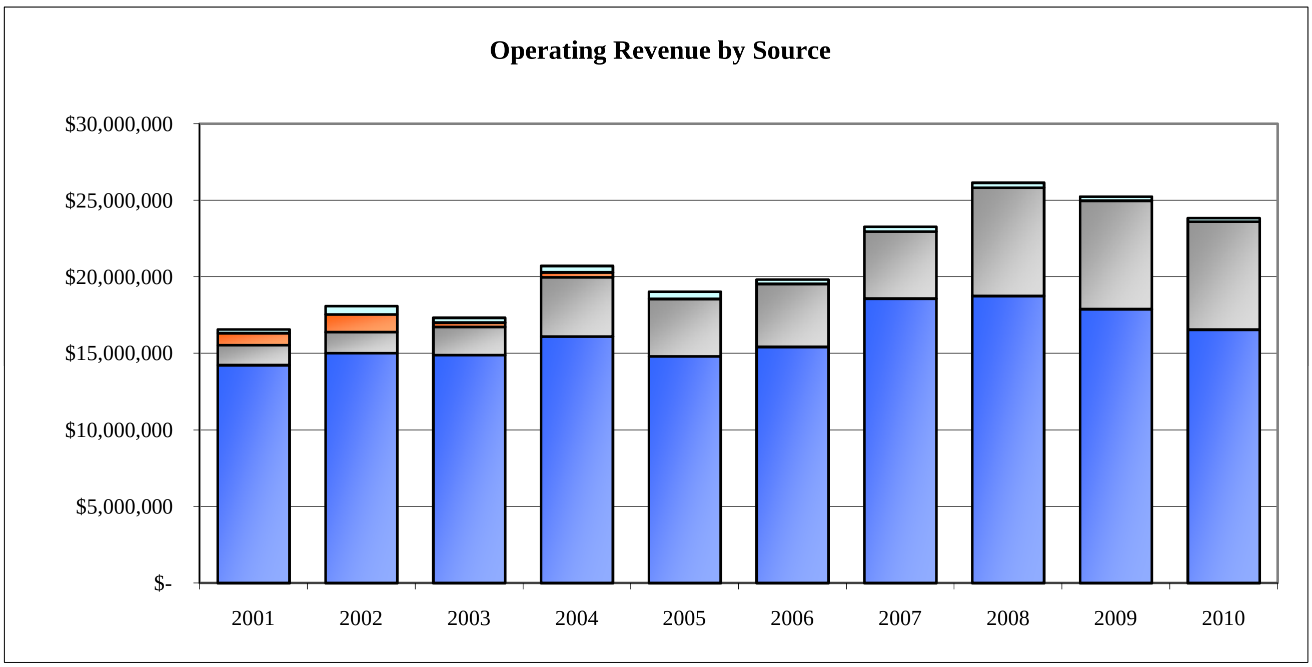
	Fiscal Year				
	2006	**2007**	**2008**	**2009**	**2010**
Changes in net assets:					
Operating revenues (see schedule 2)	$ 19,820,429	$ 23,275,841	$ 26,147,078	$ 25,245,709	$ 23,833,852
Operating expenses (see schedule 3)	(18,477,813)	(19,099,548)	(20,806,256)	(22,717,232)	(22,829,750)
Depreciation and amortization	(3,052,138)	(3,148,347)	(2,845,876)	(3,951,664)	(4,620,998)
Operating income	(1,709,522)	1,027,946	2,494,946	(1,423,187)	(3,616,896)
Net non-operating revenue(expense) (see schedule 4)	307,975	(392,509)	3,541,627	3,510,204	(1,734,390)
Net income before capital contributions	(1,401,547)	635,437	6,036,573	2,087,017	(5,351,286)
Capital contributions	1,457,127	822,157	100,019	277,963	71,614
Changes in net assets	$ 55,580	$ 1,457,594	$ 6,136,592	$ 2,364,980	$ (5,279,672)
Net assets by component:					
Invested in capital assets, net of related debt	$ 29,061,204	$ 35,613,775	$ 39,623,667	$ 42,404,294	$ 41,121,603
Restricted	10,625,609	6,419,910	3,459,351	3,663,542	3,389,233
Unrestricted	3,744,323	2,855,045	7,942,304	9,323,911	5,601,238
Total net assets	$ 43,431,136	$ 44,888,730	$ 51,025,322	$ 55,391,747	$ 50,112,074



Goleta Water District
Operating Revenue by Source
Previous 10 Fiscal Years

Schedule 2

Fiscal Year	Water Sales	Monthly Service Charge	System Development Fees[1]	Other Charges and Services	Total Operating Revenue
2001	$ 14,236,373	$ 1,304,814	$ 787,126	$ 231,757	$ 16,560,070
2002	15,013,948	1,379,128	1,162,399	538,658	18,094,133
2003	14,888,620	1,839,088	285,919	313,398	17,327,025
2004	16,105,305	3,861,755	327,151	417,938	20,712,149
2005	14,809,298	3,755,733	-	463,335	19,028,366
2006	15,425,971	4,117,481	-	276,977	19,820,429
2007	18,582,563	4,380,462	-	312,816	23,275,841
2008	18,750,446	7,073,409	-	323,223	26,147,078
2009	17,891,753	7,086,522	-	267,434	25,245,709
2010	16,554,650	7,052,721	-	226,481	23,833,852



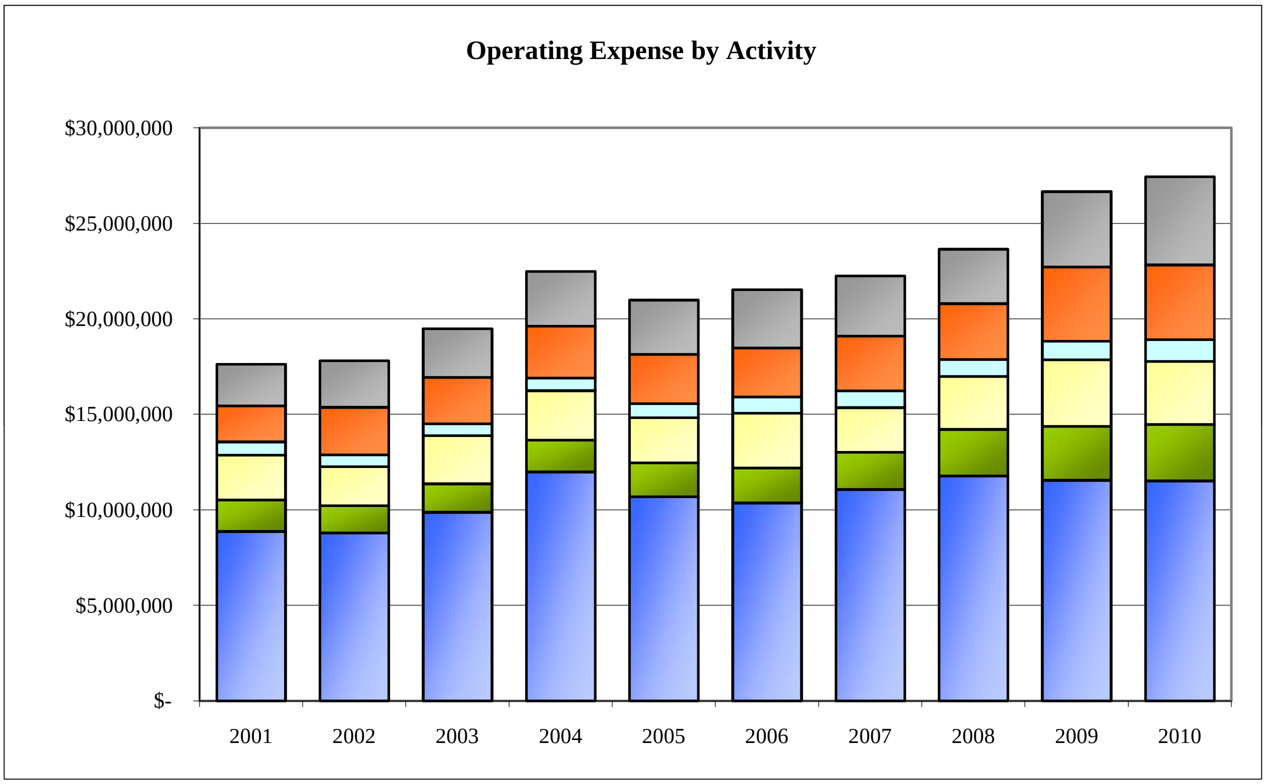
Note: (1) System Development Fees classified as contributed capital in FYs 2005 and 2006, and as capacity charges from 2007

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	$ 8,871,370	$ 1,646,629	$ 2,351,977	$ 692,094	$ 1,889,156	$ 2,173,876	$ 17,625,102
2002	8,801,390	1,425,425	2,039,971	620,233	2,486,887	2,437,754	17,811,660
2003	9,880,639	1,491,076	2,517,906	623,069	2,427,917	2,546,021	19,486,628
2004	11,990,871	1,662,522	2,593,119	661,467	2,719,535	2,860,413	22,487,927
2005	10,686,375	1,781,205	2,359,677	736,126	2,580,288	2,845,015	20,988,686
2006	10,364,501	1,836,761	2,860,188	857,214	2,559,149	3,052,138	21,529,951
2007	11,069,528	1,946,499	2,339,804	882,476	2,861,241	3,148,347	22,247,895
2008	11,777,844	2,437,979	2,773,177	891,142	2,926,114	2,845,876	23,652,132
2009	11,556,246	2,824,069	3,486,767	973,101	3,877,049	3,951,664	26,668,896
2010	11,522,500	2,958,871	3,293,092	1,146,336	3,908,951	4,620,998	27,450,748

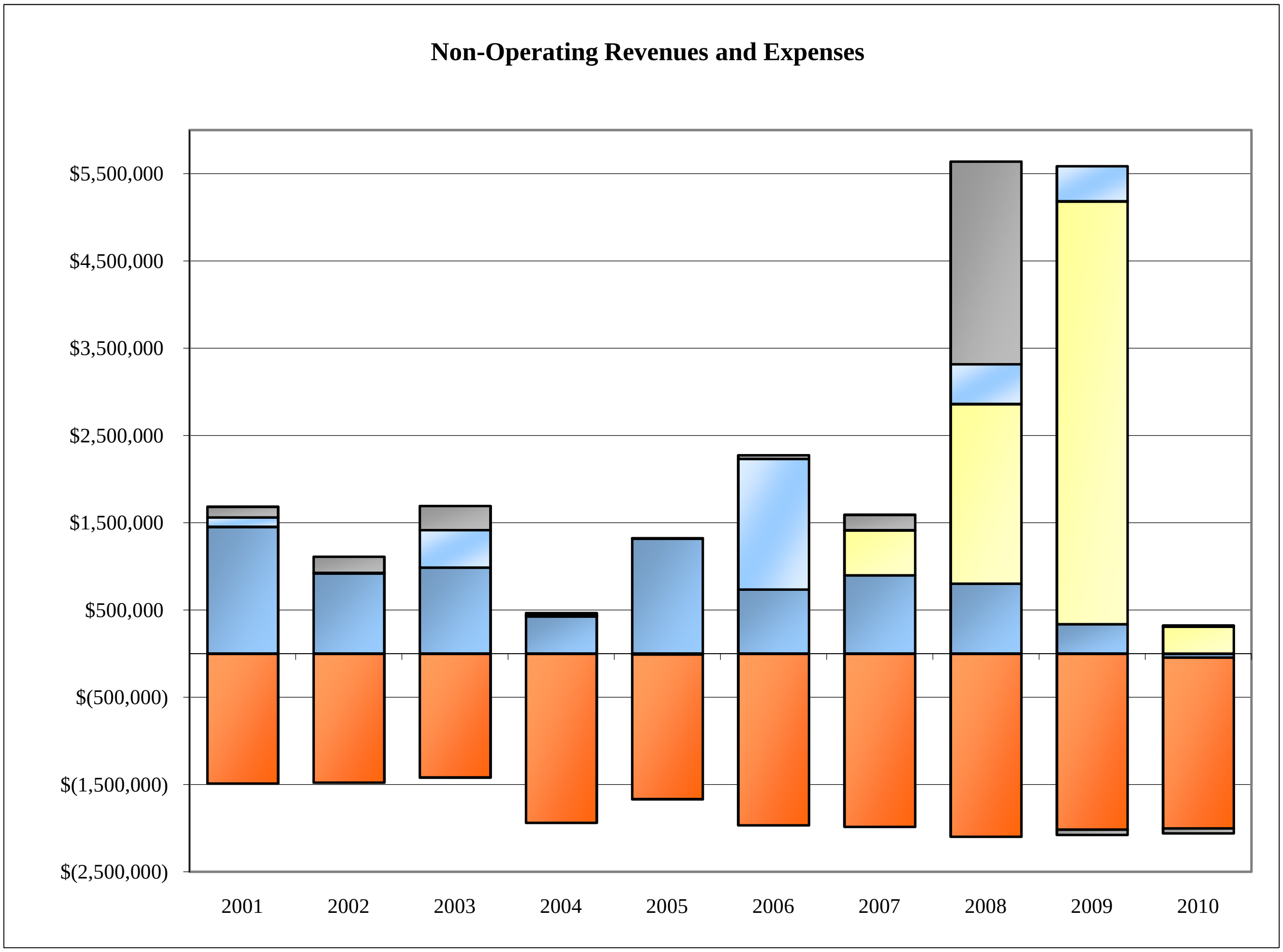


Source: Goleta Water District Audited Financial Statements

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

Schedule 4

Fiscal Year	Investment Income[1]	Capacity Charges	Gain/(Loss) on Sale of Assets	Interest Expense	Other Income & Expense, net		Net Non-operating Revenues/(Expenses)
2001	$ 1,453,770	-	$ 107,238	$ (1,488,916)	$ 123,626		$ 195,718
2002	921,182	-	5,744	(1,476,893)	184,195		(365,772)
2003	988,358	-	427,424	(1,419,105)	277,325		274,002
2004	428,648	-	8,432	(1,939,412)	29,433		(1,472,899)
2005	1,319,565	-	(9,612)	(1,657,837)	1,299		(346,585)
2006	736,719	-	1,496,104	(1,966,097)	41,249		307,975
2007	898,501	515,955	-	(1,985,205)	178,240		(392,509)
2008	803,891	2,058,188	456,725	(2,098,927)	2,321,750	(2)	3,541,627
2009	338,908	4,846,624	402,230	(2,017,803)	(59,755)		3,510,204
2010	(43,888)	310,949	12,929	(1,958,678)	(55,702)		(1,734,390)



Notes:

(1) Includes interest income and realized and unrealized gains and losses on investments.

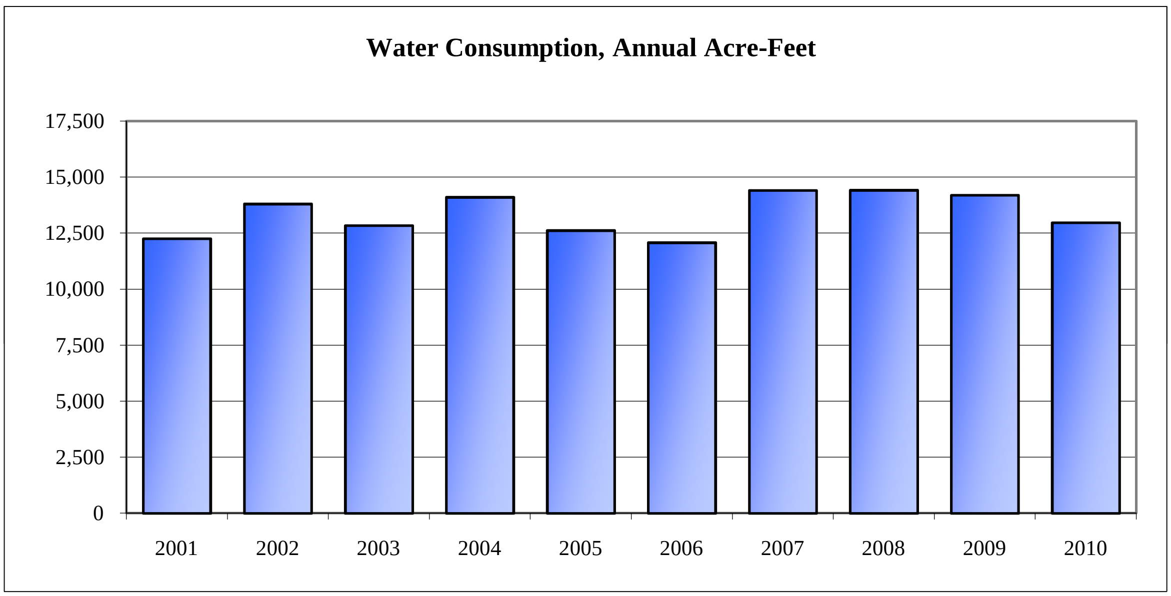
(2) Includes one-time accrual reversal of $2,184,000 for post employments benefits

Source: Goleta Water District Audited Financial Statements

Goleta Water District
Revenue Base
Previous 10 Fiscal Years

Schedule 5

Fiscal Year	Water Consumption (acre feet)
2001	12,252
2002	13,803
2003	12,839
2004	14,104
2005	12,619
2006	12,077
2007	14,406
2008	14,415
2009	14,198
2010	12,971



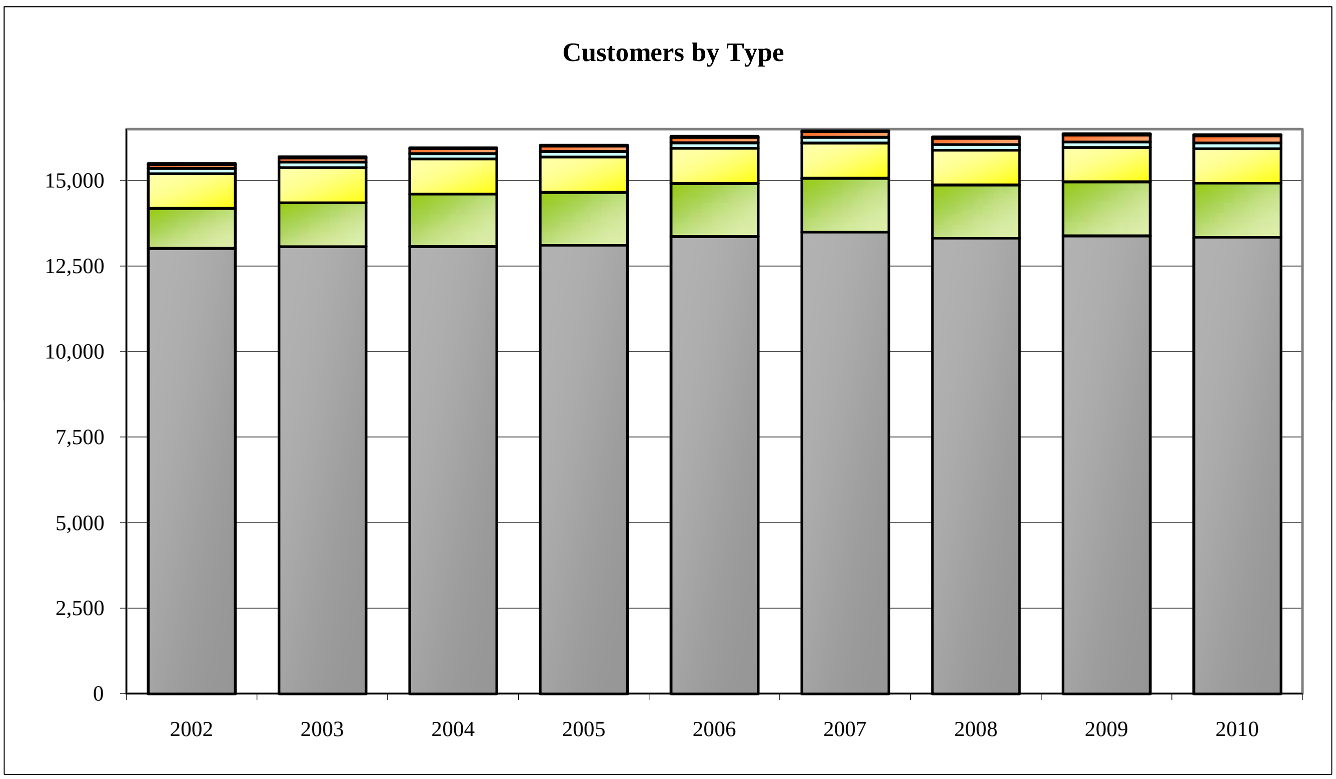
Note: See Schedule 2 "Revenue by Source" for information regarding water sales.

Sources: Central Coast Water Authority Statistics and Goleta Water District Annual Continuing Disclosure Annual Report.

Goleta Water District
Customers by Type
Previous 9 Fiscal Years[1]

Schedule 6

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



Notes: (1) Data for fiscal years prior to 2002 are not available.

Goleta Water District
Revenue Rates
Previous Ten Fiscal Years

Schedule 7

Monthly Service Charges[1]

	Fiscal Year									
Meter Size	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
5/8" & 3/4"	$ 6.20	$ 6.20	$ 8.20	$ 16.40	$ 16.40	$ 17.71	$ 18.42	$ 27.63	$ 27.63	$ 27.63
1"	8.40	8.40	11.11	22.22	22.22	24.00	24.96	46.06	46.06	46.06
1 1/2"	13.76	13.76	18.20	36.40	36.40	39.31	40.88	92.10	92.10	92.10
2"	19.55	19.55	25.86	51.72	51.72	55.86	58.09	147.38	147.38	147.38
3"	32.66	32.66	43.20	86.40	86.40	93.31	97.04	276.33	276.33	276.33
4"	49.67	49.67	65.69	131.38	131.38	141.89	144.57	460.55	460.55	460.55
6"	90.62	90.62	119.85	239.70	239.70	258.88	269.23	921.09	921.09	921.09
8"	133.46	133.46	176.51	353.02	353.02	381.26	396.51	1473.76	1473.76	1473.76
10"	176.30	176.30	233.17	466.34	466.34	503.65	523.79	3500.72	3500.72	3500.72

Water Usage Charges (per HCF)[1]

	Fiscal Year									
User Type	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Urban[3]	$ 3.13	$ 3.29	$ 3.29	$ 3.29	$ 3.29	$ 3.55	$ 3.71	$ 3.71	$ 3.71	$ 3.71
Agricultural[2]	0.90	0.95	0.95	0.95	0.95	1.00	1.00	1.00	1.00	1.00
Recreation	1.74	2.38	2.38	2.38	2.38	2.57	2.68	2.68	2.68	2.68
Reclaimed	1.74	2.01	2.01	2.01	2.01	2.17	2.17	2.17	2.17	2.17

Notes:

(1) Rates as of June 30 of each fiscal year unless rate changes were passed midyear.

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

(3) Urban Conservation rate ≤ 4 HCF

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

Goleta Water District
Ten Largest Water Users
Current Fiscal Year versus 7 Years Prior(1)

Schedule 8

2010			2003		
Name	**Water Consumption (Acre Feet)**	**Percentage of Total Water Purchased**	**Name**	**Water Consumption (Acre Feet)**	**Percentage of Total Water Purchased**
Univ of Calif at Santa Barbara	871	6.71%	Univ of Calif at Santa Barbara	765	5.48%
Cavaletto Ranches, LLC	357	2.75%	County of Santa Barbara	233	1.67%
Sandpiper Golf Course	231	1.78%	Glen Annie Golf Club, LLC	339	2.43%
Touchstone Golf	227	1.75%	Bacara Resort Services, Inc.	151	1.08%
Butera, Roy	178	1.37%	George Cavaletto	375	2.69%
Rancho Tres Canadas	168	1.30%	Sandpiper Golf Course	241	1.73%
Por la Mar Nursery	154	1.19%	Ag-Land Service	162	1.16%
Wallover, Inc.	138	1.06%	Rancho Tres Canadas	154	1.10%
Goleta Union School District	126	0.97%	Por La Mar Nursery	149	1.07%
Santa Barbara Unified School District	123	0.95%	Devereaux Creek Properties	152	1.09%
Total attributable to ten largest water users:	2,573	19.84%		2,721	19.50%
Total water consumed (acre feet)	12,971	100.00%		13,955	100.00%

Source: Central Coast Water Authority CAFR and Goleta Water District Continuing Disclosure Annual Report

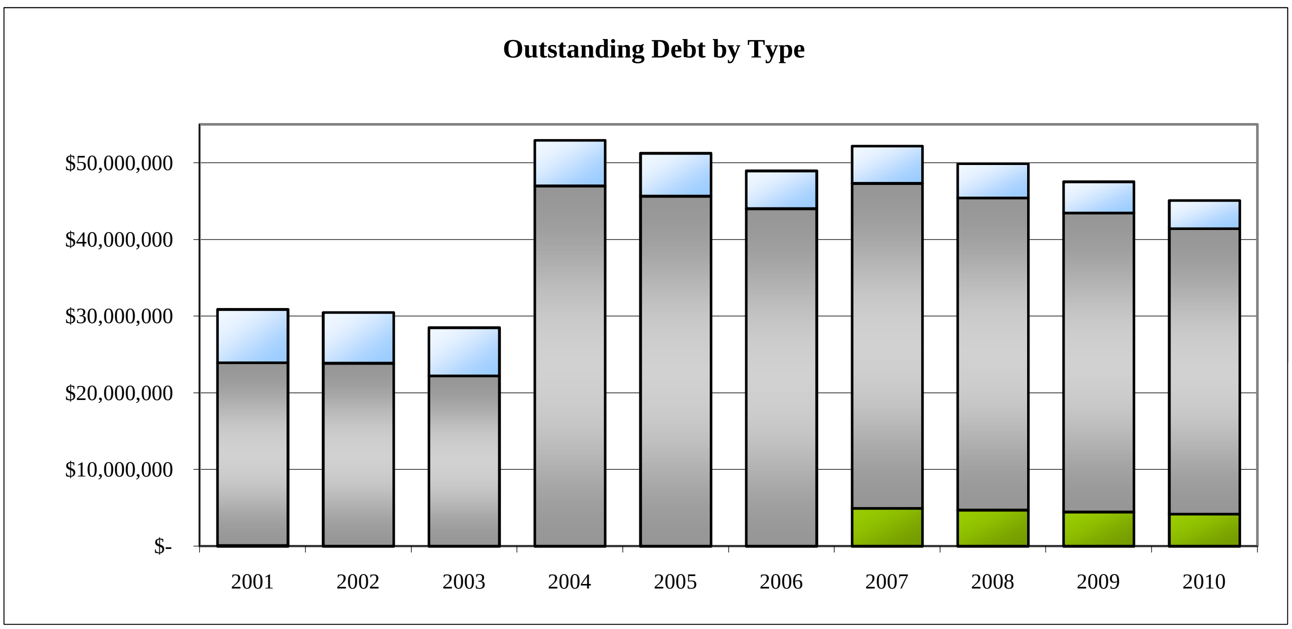
Notes:

(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	Total Per Capita	Total As a Share of Personal Income
2001	$ 71,110	$ 23,865,000	$ 6,951,110	$ 30,887,220	N/A	N/A
2002	-	23,865,000	6,626,252	30,491,252	N/A	N/A
2003	-	22,210,000	6,292,298	28,502,298	925	0.01%
2004	-	47,000,000	5,948,994	52,948,994	1,721	0.01%
2005	-	45,655,000	5,596,077	51,251,077	1,671	0.01%
2006	-	44,040,000	4,922,476	48,962,476	1,594	0.01%
2007	4,941,625	42,395,000	4,860,321	52,196,946	1,730	0.01%
2008	4,705,415	40,715,000	4,476,921	49,897,336	1,663	0.01%
2009	4,457,920	39,005,000	4,082,786	47,545,706	1,560	0.01%
2010	4,197,810	37,225,000	3,677,615	45,100,425	1,450	0.01%



Source: Goleta Water District Audited Financial Statements

Notes:
N/A - Data not available

Goleta Water District
Pledged-Revenue Coverage
Previous 10 Fiscal Years

Schedule 10

Fiscal Year	Operating Revenues	Operating Expenses[1]	Net Available Revenues	Debt Service Principal[2]	Debt Service Interest	Debt Service Total	Coverage Ratio
2001	$ 16,560,070	$ (15,451,226)	$ 1,108,844	$ 395,968	$ 1,488,916	$ 1,884,884	0.59
2002	18,094,133	(15,373,906)	2,720,227	1,988,954	1,476,893	3,465,847	0.78
2003	17,327,025	(16,940,607)	386,418	2,078,305	1,419,105	3,497,410	0.11
2004	20,712,149	(19,627,514)	1,084,635	343,305	1,939,412	2,282,717	0.48
2005	19,028,366	(18,143,671)	884,695	1,697,917	1,657,837	3,355,754	0.26
2006	19,820,429	(18,477,813)	1,342,616	1,977,799	1,966,097	3,943,896	0.34
2007	23,275,841	(19,099,548)	4,176,293	2,076,332	1,985,205	4,061,537	1.03
2008	26,147,078	(20,806,256)	5,340,822	2,299,610	2,098,927	4,398,537	1.21
2009	25,245,709	(21,417,361)	3,828,348	2,351,630	2,017,803	4,369,433	0.88
2010	23,833,852	(21,250,650)	2,583,202	2,445,281	1,958,678	4,403,959	0.59

Notes:

(1) Excludes depreciation expense and non-cash OPEB expense

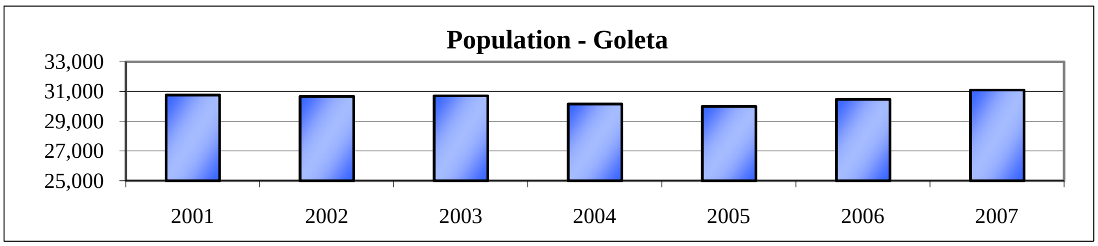
(2) Includes ordinary principal payments, only (no payments associated with refinancing)

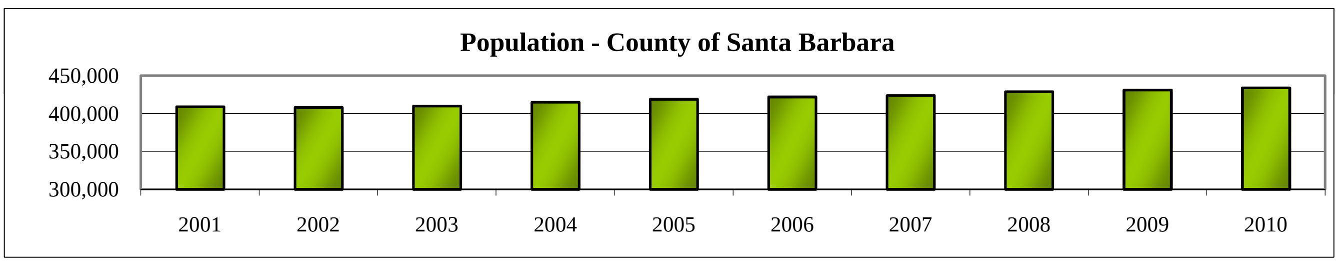
Source: Goleta Water District Audited Financial Statements

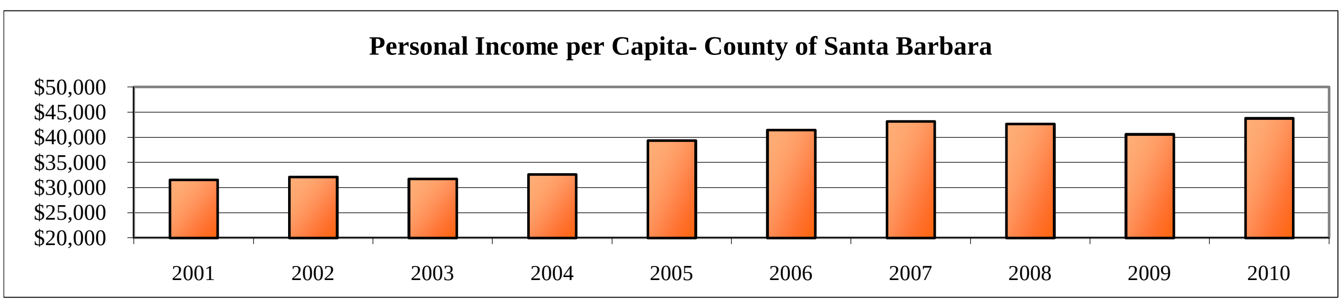
Goleta Water District
Demographics and Economics Statistics
Previous 10 Fiscal Years

Schedule 11

	Goleta[1]	County of Santa Barbara[2]			
Year	**Population[3]**	**Unemployment Rate**	**Population**	**Personal Income ($ billions)**	**Personal Income per Capita**
2001	N/A	2.80%	409,000	$ 12.91	$ 31,567
2002	N/A	3.70%	408,000	13.11	32,125
2003	30,824	3.50%	410,000	13.02	31,749
2004	30,773	3.40%	415,000	13.54	32,636
2005	30,679	4.00%	419,000	16.50	39,379
2006	30,721	3.50%	422,000	17.50	41,469
2007	30,169	3.80%	424,000	18.30	43,160
2008	30,000	5.20%	429,000	18.30	42,657
2009	30,476	8.20%	431,000	17.50	40,603
2010	31,099	8.70%	434,000	19.00	43,779







Sources: California Department of Finance and California Labor Market Info

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.

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 year-End)

	Fiscal Year									
Department	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Human Resources	1	1	1	1	1	1	1	1	1	1
Administrative Services	3	3	3	3	3	3	3	4	2	3
Engineering Services	9	9	11	11	11	11	11	12	11	10
Production Services	12	12	13	14	13	13	12	14	10	10
Water Quality	0	0	0	0	0	0	1	2	2	2
Operations Management	2	2	2	2	2	2	2	2	2	2
Field Services	16	16	16	16	16	14	9	9	16	16
Warehouse	1	1	1	1	1	1	1	1	1	1
Customer Service	2	2	2	2	2	2	3	3	3	2
Meter Services	5	5	5	7	7	7	5	5	5	5
Accounting and IS	4	4	4	4	4	3	3	3	4	5
Payroll	1	1	1	1	1	1	1	1	1	1
	56	56	59	62	61	58	52	57	58	58

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	45	262	9	1,353	29
2002	45	263	9	1,388	29
2003	45	264	9	1,392	29
2004	45	264	9	1,392	29
2005	45	264	9	1,393	29
2006	45	265	9	1,402	29
2007	45	265	9	1,410	29
2008	45	266	9	1,422	29
2009	45	266	9	1,437	29
2010	45	270	9	1,448	29

Sources: Goleta Water District - Administrative Services and Engineering Departments

Report on Internal Controls and Compliance

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Independent Certified Public Accountants Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the basic financial statements of the Goleta Water District (District) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 10, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did identify deficiencies in internal control over financial reporting that we consider to be a material weakness and a significant deficiency.

Material Weakness

Management Oversight over Financial Reporting:

The District's accounting department has not had a satisfactory system of internal controls over financial reporting. Similarly, there has been a lack of supervisory oversight. Work product has been less than adequate. It is apparent that this situation has existed for at least the past five years. This weakness has led to material misstatements of prior year's financial statements and misstatements in the June 30, 2010 general ledger, both of which have been corrected during the process of our audit. A satisfactory system of internal control should be in place and functioning on a daily basis. An independent financial statement audit and the independent auditors are not a part of a system of internal control and cannot be relied upon by management to serve such a function. Material misstatements to the June 30, 2009 financial statements and the June 30, 2010 general ledger are discussed below:

Capital Assets Accounts

1. During the course of our audit we noted the lack of a detailed capital asset subledger to support the capital asset account totals in the general ledger. Based on our inquiry, the District located and provided a capital asset subledger from previous years kept in Excel. The District used this Excel spreadsheet as a basis for updating their capital asset subledger in the current year. Excel is not an accounting software product, and is not suited for maintaining cost records of capital assets, accumulated depreciation and current year depreciation.

2. Upon further review and inspection of the Excel capital asset subledger, we noted that in previous years there were numerous large dollar entries recorded in the Excel spreadsheet with no asset description. This is indicative of numerous assets having been grouped together and recorded in a single entry.

3. Annual depreciation expense was computed based on large asset batch totals. Because of the inaccurate manner in which depreciation expense was computed, assets groups were over depreciated in prior years and under depreciated in the periods ending June 30, 2009 and 2010.

4. Depreciation expense for the year ended June 30, 2010 as computed per the Excel spreadsheet did not agree to the depreciation expense per the general ledger.

5. The restatement for periods prior to June 30, 2009 was $1,225,731, resulting in an increase in net assets. The financial statements for the year ended June 30, 2009 were restated by $488,985 for depreciation expense, resulting in a decrease in net assets. The general ledger for June 30, 2010 was adjusted for $443,780 for depreciation expense, resulting in a decrease in net assets.

Management response

It is important to note that the District was without a CFO for most of this calendar year, with a new CFO having joined the District in July of 2010. The auditor's comments on the capabilities of the accounting and administrative functions of the District were focused on the 2010 fiscal year and are therefore intended to be considered in the context of the historical operations of the District. It is apparent that accounting practices were less than desirable for an extended period of time. It should also be noted that there is new management overseeing the District's accounting activities and this new management has identified these problems and is systematically addressing them. The District recognizes the need to improve the quality of its financial reporting and will introduce necessary changes in training, organization, and accounting tools. Staff has already commenced making changes in processes and internal controls, more specifically outlined in management's comments below.

The District has not had a proper capital asset accounting system since 1999 when a system conversion occurred. The manual system was developed by previous staff as an interim measure and, during a period of significant change in staff, was never replaced. Staff recognizes that this detailed listing is inadequate due to the resultant batching of assets and inaccurate depreciation methodology. During field work, it was determined that the District should restate asset basis for 2008, 2009, and 2010. Without a proper fixed asset system, restating fixed assets for three years was more complicated than anticipated and mistakes occurred. Staff agrees that a proper accounting system is needed and that the depreciation methodology was flawed and resulting in misstated depreciation expense. While staff repaired the excel-based capital assets listing and corrected the inaccurate calculations, it will seek funding and project resources necessary to introduce a capital asset accounting system

<u>Construction in Progress</u>

The District self constructs various improvements to existing facilities, equipment and new facilities the costs of which are either reimbursed by a District customer or are borne by the District. These projects are either capitalized by the District or are expensed. Developers also install water delivery systems to their projects and donate the systems to the District. In any case, the District accumulates these incurred project costs as Construction in Progress and records the costs in an Excel spreadsheet. When the project is completed and signed-off by the Engineering department, the Accounting department should close the project out by either capitalizing or expensing the cost. In the case of developer financed water delivery systems, the District similarly records the cost of the system as a capital asset, with an offsetting entry to contributed capital.

1. Until the first quarter of the 2010-11 fiscal year, the Construction in Progress account had not been carefully reviewed by District accounting staff for several years. During our audit, we found projects that had been completed and signed–off by the Engineering Department in prior years, but the costs had never been transferred out of Construction in Progress to capital assets or expensed.

2. We found a total of approximately $623,000 of developer financed projects completed in 2005 and prior years that were unrecorded in the general ledger. After the oversight was noted, the accounting department initially recorded the assets with an offset to contributed capital in the current period. We recommended that the contributed capital be recognized as an adjustment to beginning balance of net assets. The entries were eventually recorded correctly.

Management response:
The District has lacked project accounting systems since 2005 due to an incomplete software system conversion. In prior years and during the current year, staff had performed general reviews of Construction in Progress (CIP) manual spreadsheets. Construction deposits were monitored and reconciled to the general ledger, with 41 jobs closed in fiscal year 2008 and 63 jobs closed in fiscal year 2009. The backlogged volume was such, however, that the District recognizes issues remained at the end of the 2010 fiscal year. During its review, staff identified those CIP jobs needing to be closed included those with associated contributed capital. The District historically charged the accounting to the current period in which closing occurred, rather than retroactively to the closed period. In fiscal year 2010 staff recorded two large jobs that had been completed in 2005. Staff agrees with the auditors that the appropriate accounting is to reclassify these jobs to assets in service in 2005, and implemented this adjustment in fiscal year 2010 figures.

Staff furthermore agrees that a proper project accounting system is needed to accurately account for CIP. In the interim, accounting staff has worked closely with Engineering to develop procedures to categorize all existing projects, document and track their progression, and create a process that routinely reviews their status. Furthermore, staff will seek funding and project resources necessary to introduce a project accounting system.

Other Post Employment Benefits (OPEB)

The District provides continuing health insurance coverage for retired employees. The District currently is on a "pay as you go" plan meaning that no financial reserves are established for current retirees or current employees, resulting in a liability for future payments. An input error of basic actuarial factors occurred in the prior year which resulted in adjustments of $946,635 and $896,464 for the years ended June 30, 2009 and 2010 respectively.

Management response
GASB 43 reporting requirements were first made effective in fiscal year 2009 and are technically complex. This year staff worked closely with an online actuarial service to correct prior year reports and to adjust current year reports but had not completed its analysis prior to the audit commencing. Two errors were discovered in the investigation; one, an inaccurate entry of retirement policy, the second a misinterpretation of cost-sharing assumptions. To address this issue going forward, staff has developed a greater understanding of GASB 43 requirements and will expand the scope of actuarial services to complete a more thorough analysis of District liabilities.

Preparation of the Comprehensive Annual Financial Report (CAFR)

The District contracts with the outside independent auditors to prepare the CAFR. However, the document itself and the data incorporated into the document is the responsibility of the District's managers. In preparing the CAFR, we noted that District staff was unaware of the source of certain data presented financial statement footnotes in the CAFR. Whether District staff prepares the CAFR or the independent accountants prepare the CAFR, the document is the responsibility of the District and the District cannot meet that responsibility if its staff is not familiar with the data therein contained.

Management response
Staff, while updating the 2010 CAFR, openly questioned the accuracy of certain figures in prior years' reports, and supported the auditor to provide data when updating the CAFR. The District will continue to expand on its understanding of all reported figures, and will maintain a library of those calculations.

General Journal Entry Process

We noted a significant lack of oversight and supervision over the posting of general journal entries to the general ledger and the lack of documentation to support such entries. Specifically, we noted that one, entries were booked to contributed capital that related to prior years in the current period as discussed above, two, we noted one double booked journal entry and three, we noted an instance where instructions to post entries regarding depreciation were never posted.

Management response
Staff recognizes this historic lack of review allowed certain mistakes and oversights to occur and that, while staff did make corrections, it slowed and complicated the audit process. Management has therefore created a practice that all journal entries now require approval before posting. The approver will ensure journal entries are supported with accurate and adequate explanation, review afterwards to verify the intended results, and direct that the documentation be properly filed. Monthly close procedures will be formally documented, including a closing checklist and binder for future reference.

Recommendations

The above examples are provided to demonstrate the pervasiveness of the problems wrought by the lack of tools training and experienced staff within the Accounting Department at the District. Specifically, the District should:

1. Make a nominal investment in a capital asset (plant and equipment) software module so that asset cost, current year depreciation and accumulated depreciation can be accurately computed, maintained and reconciled to general ledger account balances. A formal monthly process should be developed in order that new additions or updates to capital assets are being accounted for on a timely basis.

2. Make an investment in a cost accounting module to track project costs instead of using an Excel spreadsheet. A formal monthly process should be developed in order to track and close out projects on a timely basis. Expense projects should be expensed in the year the costs were incurred instead of being capitalized and carried over to future periods.

3. All journal entry postings to the general ledger should be reviewed and approved by senior Accounting department personnel. The approval should be evidenced by the initials or signature of the supervisor approving the entry. As an alternative, the District could consider updating the existing accounting system to accommodate electronic review.

4. Accounting department staff should at least on a bi-annual basis meet with the Engineering department to determine what projects, if any, should be moved from the construction in progress accounts to actual capital asset accounts and added to the depreciation software module so that depreciation computations can be made. This process is currently being followed.

5. Most importantly, senior supervisors in the accounting department need to more closely monitor general ledger postings and reconciliation of account details by establishing a monthly closing process. Known problem areas such as accounting for capital assets and OPEB liability measurement need to receive special attention and follow-up to insure that all transactions are being recorded accurately and timely.

6. Accounting department personnel should maintain documentary support for the data included in the CAFR and understand how the data was compiled. Anything less is a breach of the District’s fiduciary responsibilities to the users of the CAFR.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in GWD's internal control to be significant deficiencies:

Significant Deficiencies

Segregation of Duties:

A lack of segregation of duties within the Accounting department has created significant deficiencies in the system of internal control. We noted three areas in which a segregation of duties is necessary to improve internal control; accounts receivable and billing, accounts payable, and payroll.

Accounts Receivable and Billing

The same accounting clerk performs the following functions:

1. Sets up new customers and performs the monthly billing for all routes.
2. Can make changes to the "meter read" data.
3. Is solely responsible for submitting billing data to the outside vendor for bill production and mailing.
4. Can make adjustments to customer accounts after the billing process has been completed.
5. Creates auto pay and EFT files for payment, imports payment information into the billing system and post payments against customer accounts.

Accounts Payable

The same accounting clerk performs the following functions:

1. Enters new vendors into the accounts payable system.
2. Updates vendor information.
3. Inputs vendor invoices for payment.
4. Prints checks for signature.

Payroll

The following deficiencies were noted:

1. The accounting clerk that processes the payroll also has the ability to make changes to standing data fields effecting compensation rates, terminations, etc. and there is no apparent review of the changes made. Additionally, the journal entry posting the payroll transaction to the general ledger does not appear to be reviewed by accounting department personnel. If the journal entry is reviewed, that review should be evidenced by the signature of the personnel reviewing the entry.

Management response

With three accounting staff, dual responsibilities in certain positions have created a lack of segregation of duties. District has therefore changed its policy of allowing the AP clerk to enter new vendors into the purchasing module. Going forward, this will be performed by a separate accounting clerk and either the supervisor or CFO will authorize by signature.

While the District recognizes that the same employee was responsible for redundant payable aspects, there were other compensating factors. Since the beginning of the 2010 calendar year, management requires a minimum of two senior managers approve any purchase order (which must be accompanied by proof of budget), and at least one manager to approve the subsequent invoice before accounting generates a check for payment. Checks are prepared and reviewed by the accounting supervisor, the CFO, and by the Assistant General Manager. Cash Disbursements reports are prepared by supervisor and presented to management and the Board for review. Furthermore, the District recently changed banking partners and introduced "positive pay" technology, a fraud protection tool to prevent unauthorized draws from District accounts.

Staff agrees that all journal entries should be reviewed by appropriate management or supervisor and intends to develop manuals of working procedures and policy. Staff has now created a practice whereby all journal entries will require approval before posting. The approver will ensure journal entries are supported with accurate and adequate explanation. Going forward, monthly close procedures will be formally documented, including a closing checklist and binder for future reference. Procedures for monthly close should be developed for each desk, including check lists, samples, etc, with the goal that another individual could complete the job utilizing that manual.

Staff recognizes the historic deficiency, and in November 2010 during an upgrade to the vendor payroll system, management instructed that compensation database changes must be done by Human Resources. The payroll clerk is therefore no longer able to make changes to the payroll system. Other compensating controls have existed, including the review of timekeeping by supervisors. Summary reports are reviewed by management for reasonableness during the preparation and review of payroll disbursements. Each department head receives bi-weekly overtime reports to provide additional oversight, and the District CFO reviews overtime, examines payroll preview reports, and signs all final payroll bank transfers.

<u>Recommendations</u>

The lack of segregation of duties noted in the accounts receivable and billing, accounts payable and payroll functions creates an environment conducive to the misappropriation of District funds, such as accounts receivable lapping schemes, phantom vendor and phantom employee defalcations. By segregating functions in the accounts receivable, accounts payable and payroll areas amongst several employees rather than charging a single employee with all responsibility, controls are strengthened and a degree of cross-training is achieved.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Nasif, Hicks, Harris & Co., LLP

Nasif, Hicks, Harris & Co., LLP