MONTECITO SANITARY DISTRICT

June 30, 2011 and 2010

FINANCIAL STATEMENTS

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

MONTECITO SANITARY DISTRICT

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Montecito Sanitary District

We have audited the accompanying financial statements of Montecito Sanitary District (the "District") as of June 30, 2011 and 2010 and for the fiscal years then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montecito Sanitary District, as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing special districts.

Management's Discussion and Analysis on pages 2 through 9 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic general purpose financial statements. The supplemental information for the year ended June 30, 2011 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bartlett, Pringle + Wolf, LLP

Santa Barbara, California
November 3, 2011

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Montecito Sanitary District (the District) provides wastewater collection, treatment, and disposal for most of the community of Montecito. The Montecito Sanitary District is an independent special district voted into existence in 1947, by the residents of Montecito to provide for the collection, treatment and disposal of wastewater. In 1961, the District constructed a secondary plant capable of processing 750,000 gallons per day, including ocean outfall (located 1500 feet offshore) and trunk sewer system. In 1981 the voters approved $3.1 million in revenue bonds to incorporate new technology, double the plant's capacity to 1.5 million gallons per day. The District's mission has always been "to protect public health and safety and to preserve the natural environment through the collection, treatment and disposal of wastewater in the most cost-effective way possible."

Due to an urgent need for capital improvement project funds in FY 2006-07 the District worked with CSDA and CSDA's financial consultant, Mr. Saul Rosenbaum, at Prager, Sealey & Co. Inc. to seek funding through the issuance of COPs. The District contracted the services of Fieldman, Rolapp & Associates, independent financial advisors. The Board and General Manager saw this as a means to ensure the District would have the funds necessary to complete a list of capital projects deemed to be mission critical to the District's efforts to provide the kind of service expected and mandated by federal and state regulations, and to ensure the environmental health and safety of the community in which the District serves.

There are still areas that do not have sewer available but are within the District's boundaries, and there are currently 100 properties using on-site septic systems that have sewer available. The current number of residential connections is 3,012 and there are 45 commercial and/or institutional connections. Coast Village Road businesses are not within the boundaries of the District, they are served by the City of Santa Barbara.

This Management's Discussion and Analysis (MD&A) is a key element of the District's annual audited financial statements that are prepared in accordance with the Governmental Accounting Standards Board Statement No. 34 (GASB 34). The purpose of the MD&A is to provide an overview of the District's financial condition and to highlight important changes and activities with fiscal implications that occurred during the fiscal years (FY) 2010-11 and 2009-10.

The District's accounting system follows the accrual method whereby revenues are recorded as earned, and expenses are recorded when incurred. Operating expenses are stated as expenses and capital expenses are capitalized and depreciated over the useful lives of the asset. The District's fiscal year (FY) runs from July 1 through June 30 for each year reported.

Management and Governance

The District is governed by a five-member Board of Directors. The Directors are elected on an at-large basis for four-year terms. In 2001, the Board voted to align its elections with the Statewide General Elections to increase voter turnout and achieve a substantial cost savings. At the Board's discretion an Organizational Meeting is held at least every other year to assign officers' duties and to appoint the standing Committee Representatives. This process generally results in a rotation of duties among the Board members. The established Committees meet on an as-needed basis. If necessary, Ad Hoc Committees are formed for special projects. It is the Board that approves the annual operating and capital budgets and authorizes expenditures of the District's funds.

The District employs a General Manager as the chief executive. The General Manager reports directly to the Board of Directors and is responsible for the overall operation and administration of the District. The District's Management Staff also includes an Office Manager who is the chief administrator and an Operations & Maintenance Manager and a Collection System Manager. In FY 2010-11 the District had 13 full-time authorized positions and in FY 2009-10, there were 13 full-time authorized positions.

Financial Highlights

The following is a summary of the District's statement of net assets. The table shows that the District's total net assets increased by $977,953 (+4.93%) in FY 2010-11.

	June 30, 2011	June 30, 2010	June 30, 2009	% Change FY 2010-2011 and 2009-2010	% Change FY 2009-2010 and 2008-2009
Assets:					
Current assets	$ 6,803,877	$ 5,614,617	$ 4,572,495	21.18%	22.79%
Noncurrent assets:					
Other assets	385,003	398,540	379,049	-3.40%	5.14%
Restricted assets	7,072,606	8,357,576	9,511,287	-15.37%	-12.13%
Capital assets	21,850,340	21,037,702	20,086,698	3.86%	4.73%
Total Assets	36,111,826	35,408,435	34,549,529	1.99%	2.49%
Liabilities:					
Current liabilities	744,949	701,860	492,874	6.14%	42.40%
Long term liabilities	14,532,707	14,850,358	15,055,834	-2.14%	-1.36%
Total Liabilities	15,277,656	15,552,218	15,548,708	-1.77%	0.02%
Net Assets:					
Invested in capital assets, net of related debt	14,475,277	14,874,725	14,612,111	-2.69%	1.80%
Restricted	141,060	2,151	71,630	6457.88%	-97.00%
Unrestricted	6,217,833	4,979,341	4,317,118	24.87%	15.34%
Total Net Assets	$ 20,834,170	$ 19,856,217	$ 19,000,859	4.93%	4.50%

The following is a summary of the District's revenues and expenses. The table shows that the District's operating revenues increased by $362,601 (+9.1%) and operating expenses increased by $ 152,126 (+4.6%) in FY 2010-11.

Summary of Revenues and Expenses:

Fiscal Year	Operating Revenues	Operating Expenses (1)	Operating Income/(Loss)	Operating Income/(Loss) Excluding Depreciation
2010-11	4,345,625	3,467,142	878,483	1,649,087
2009-10	3,983,024	3,315,016	668,008	1,386,884
2008-09	3,264,912	3,306,235	(41,323)	614,268

(1) Includes depreciation expense.

Sources of Revenue

The District's total revenue for the FY 2010-11 was $4,848,239 (+7%); FY 2009-10 revenue was $4,531,311 (+11%); and FY 2008-09 revenue was $4,081,656 (+9%). The revenue stream is broken down into various components which are described below:

Revenue Category	2010-11	2009-10	2008-09	% Change FY 2010-2011 and 2009-2010	% Change FY 2009-2010 and 2008-2009
Service Charges	$ 4,122,851	$ 3,831,673	$ 3,115,718	7.6%	23.0%
Connection Fees	175,449	127,601	128,394	37.5%	-0.6%
Other Services	47,325	23,750	20,800	99.3%	14.2%
Investment Income	65,743	105,169	343,595	-37.5%	-69.4%
Property Taxes	436,007	431,216	415,875	1.1%	3.7%
Other Revenue	864	11,902	57,274	-92.7%	-79.2%
	$ 4,848,239	$ 4,531,311	$ 4,081,656	7.0%	11.0%

Sewer Service Charge (SSC)

The major source of revenue for the District is the Sewer Service Charge(s) (SSC). The 2010-11 service charges increased approximately 7.6% from the prior (2009-10) fiscal year (FY). The District's total annual SSC revenue for FY 2010-11 was $4,122,851; which amounted to 85% of the total revenues and 95% of the total operating revenue. SSC revenue for FY 2009-10 was $3,831,673; which amounted to 85% of total revenues and 96% of the total operating revenue, and SSC revenue for FY 2008-09 was $3,115,718; which amounted to 76% of total revenues and 96% of the total operating revenue.

The District maintains a Teeter Plan agreement with the County of Santa Barbara. Under this agreement, the District receives the total guaranteed amounts of SSC revenue reported to the County each year and the County collects these funds from the District's customers on their bi-annual property tax statements.

Sewer Service Charge (SSC) (continued)

A 3-year planned and approved rate increase structure went into effect beginning with FY 2009-10 and will run through FY 2011-2012. The rate increases were validated and approved by following the procedures and requirements of Proposition 218. The rate increases were necessary to keep up with the rising operations and maintenance costs, debt service payments and depreciation funding of the District's capital assets.

Connection Permit Fees

The Connection Fee collected on District permits is the fee charged for connection to the District's sanitary sewer system, intended to cover or recoup infrastructure costs incurred to provide service. Connection fees collected for the FY 2010-11 were $175,449 and for FY 2009-10 were $127,601.

The number of new connections made each year is variable and it is normal to see fluctuations in this revenue stream. From July 1, 2010 through December 31, 2010, the District charged $3,250 for a single family residence to connect to the sewer. The District's Governing Board of Directors voted to increase the connection fees to $7,300 per dwelling unit effective January 1, 2011 with Resolution No. 2010-861. This resolution also various other fees associated with second residential dwelling units and auxiliary structures.

Investment Income

The District's current approved investment policy, under Resolution No. 2000-779, states that it shall be the policy of the District to invest funds, with maximum security through diversification and prudence, in a manner which will provide the highest investment return, while meeting the daily cash flow demands of the entity and conforming to all statutes governing the investments of District funds.

In keeping with that policy, the District Board chose to distribute the District's monies between two investment vehicles: the Santa Barbara County Investment Pool, and the Local Agency Investment Fund (LAIF) which is a State controlled investment pool. Funds are readily available from either pool, but the District has thus far used the Santa Barbara County Pool as its major source of operating funds since revenues from property taxes are part of that pool, as well as the District's sewer service charges that are collected by means of the County's tax roll.

Interest revenues received, excluding those earned from the Certificates of Participation (COP) monies; within the 2010-11 FY from the two investment pools was $44,363 (see COP discussion on page 6). Interest earned from the COP monies was $35,577. Minor checking account interest in the amount of $104 was earned for the Running Expense account at Santa Barbara Bank & Trust.

Property Tax

The District receives one half of 1% of the total property tax revenue that is collected by the County of Santa Barbara for parcels within its service area whether or not they are a customer of the District. The property tax revenue (shown on chart on page 4) is inclusive of secure, unsecured, unitary, and supplemental property taxes.

Certificates of Participation (COPs) – California Special Districts Association (CSDA) Finance Corporation – 2007 Series UU

As part of the COP funding process established in FY 2006-07, the District used a portion of the COP proceeds to pay off a $2 million loan secured from Santa Barbara Bank & Trust in May 2005, $1.3 million of which was used to construct a new maintenance building at the plant site. After paying off the loan from SBB&T, and payments made for bond insurance, bond issuance costs, underwriter's discount and delivery costs, the District netted $12,558,494 of the $14,765,000 proceeds from the COPs. Bank of New York (BNY) was engaged as the Administrator of the COP funds and at the request of the District's Board of Directors, BNY was instructed to set up separate accounts and amounts as indicated below. All of the COP funds are invested with the State Treasurer's Investment Pool (LAIF).

1.	Interest Account of the Installment Fund	$ 1,084,435
2.	Reserve Fund	$ 940,565
3.	Acquisition Fund (capital projects)	$10,533,493
4.	Delivery Cost Fund	$ 166,501

The COP funds became available in early April 2007 following the official closing on March 29, 2007.

As of June 30, 2011 the District has spent $6,009,709.45 of the Acquisition Fund on Board approved Mission Critical Projects.

Operating Expenses

The District's operating expenses (not including depreciation or amortization) for FY 2010-11 was $2,683,001 and for FY 2009-10 was $2,582,603. This an overall increase for FY 2010-11 in actual operating expenses of 3.9%. For FY 2009-10 the decrease in actual operating expenses was -2.1%. Depreciation expense for FY 2010-11 was $770,604 and for FY 2009-10 depreciation expenses was $718,876. Amortization expense for FY 2010-11 and 2009-10 was $13,537. A tabular summary of the expenditure increases or decreases versus the previous fiscal year is presented on the following pages.

Expenditure increases or decreases in fiscal year 2010-11 versus fiscal year 2009-10 were as follows:

Expense Category	Expenses FY 2010/2011	Expenses FY 2009/2010	FY 2010/11 Expense Increase (Decrease)	Difference	Comments/Justification
Personnel (Salaries, Payroll Taxes, WC Insurance, and Benefits)	$ 1,734,748	$ 1,776,319	$ (41,571)	-2.3%	Gap between retirement of employees and new hires – used temporary staff
Pooled Liability and Other CSRMA Insurance Programs	53,331	51,207	2,124	4.1%	Insurance Premium increases
Maintenance, Repairs, Operating Supplies/Equip, and Contracted Services	437,635	370,552	67,083	18.1%	Rain damage to office; Repairs to locker room roof and hiring of temporary staff to fill vacant positions
Utilities, Telephone, Fuel and Oil	150,826	152,729	(1,903)	-1.2%	Electricity Costs decreased due to energy efficiency measures
Research & Monitoring	15,040	11,420	3,620	31.7%	Increase in Lab Testing fees
Office Expenses, and Misc. Administrative Costs	16,986	15,057	1,929	12.8%	General increase in cost of supplies
Professional Services, Administrative Fees, and Memberships	226,115	182,029	44,086	24.2%	Increase in legal and accounting fees
Training, Safety and Travel Expenses	48,320	23,290	25,030	107.5%	Filled vacant Safety Specialist position
Subtotals	**2,683,001**	**2,582,603**	**100,398**	**3.9%**	
Depreciation and Amortization	784,141	732,413	51,728	7.1%	Depreciation expense
Totals	**$ 3,467,142**	**$ 3,315,016**	**$ 152,126**	**4.6%**	

Expenditure increases or decreases in fiscal year 2009-10 versus fiscal year 2008-09 were as follows:

Expense Category	Expenses FY 2009/2010	Expenses FY 2008/2009	FY 2009/10 Expense Increase (Decrease)	Difference	Comments/Justification
Personnel (Salaries, Payroll Taxes, WC Insurance, and Benefits)	$ 1,776,319	$ 1,838,295	$ (61,976)	-3.4%	Fewer Over-Time hours, One less employee than in previous year
Pooled Liability and Other CSRMA Insurance Programs	51,207	54,047	(2,840)	-5.3%	Received payment of Dividends from Pooled Liability Insurance
Maintenance, Repairs, Operating Supplies/Equip, and Contracted Services	370,552	323,392	47,160	14.6%	Sewer Main Repairs; Purchased devices for sewer overflow prevention
Utilities, Telephone, Fuel and Oil	152,729	142,523	10,206	7.2%	Increase in overall utility costs
Research & Monitoring	11,420	10,354	1,066	10.3%	Chemical/Fuel Costs up ~ 10%; Lab Testing Fees up ~ 9%
Office Expenses, and Misc. Administrative Costs	15,057	19,147	(4,090)	-21.4%	Overall decrease in office expenses
Professional Services, Administrative Fees, and Memberships	182,029	207,302	(25,273)	-12.2%	Joint Safety Specialist position vacant
Training, Safety and Travel Expenses	23,290	42,047	(18,757)	-44.6%	Minimal travel to conferences, etc.
Subtotals	**2,582,603**	**2,637,107**	**(54,504)**	**-2.1%**	
Depreciation and Amortization	732,413	669,128	63,285	9.5%	Depreciation expense
Totals	**$ 3,315,016**	**$ 3,306,235**	**$ 8,781**	**0.3%**	

Non-Operating Expenses

Capitalized Expenditures

Capital expenditures of the COP funds from July 1, 2010 through June 30, 2011 total $1,393,004. The balance of available funds from the Acquisition Fund monies at June 30, 2011 was $5,488,719.

One of the District's significant projects completed with the COP funds was the Electrical Maintenance and Upgrade project. This project was approved for construction in July 2009 and was completed in September 2010.

Annual Audited Financial Statements

At the end of each fiscal year, the District is audited by an independent certified public accounting firm qualified to perform government accounting audits. The financial statements consist of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, an entire operating entity. These statements then proceed to provide a detailed look at specific financial activities. This annual report consists of two parts – management's discussion and analysis (this section) and a series of basic financial statements.

The annual financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows, followed by various and specific notes to those financial statements.

Additionally, the report provides supplemental information such as: Board of Directors names and titles and Schedules of Operating Expenses – by Department.

Future Rate Increases/Expenses

The District is entering the end of a 3-year approved rate increase plan which ends with FY 2011-2012 (June 30, 2012). These increases have enabled the District to collect service-generated revenues to cover not only the daily operations and maintenance costs, but monies to fund future rehabilitation projects to maintain system integrity. On June 14, 2010, the Board authorized the creation of a separate account fund for Retirement Medical Benefits and as of June 30, 2011, there was $60,410.13 in this account. Additional monies will be deposited in July of each Fiscal Year.

On May 26, 2009, the Board authorized the creation of a separate fund for depreciation. Effective July 1, 2009, the County-Auditor Controller's office established a new fund titled Montecito Sanitary Capital Replacement Fund and as of June 30, 2011 there was $2,628,911 in this fund. Additional amounts may be contributed annually based on the annual depreciation expense as approved by the Board. The District may withdraw monies from the Capital Replacement Fund at any time to fund Capital projects or to meet operational, maintenance or any type of financial need of the District.

Contacting the District's Financial Management

This financial report is designed to provide the District's customers, creditors, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions about this report or need additional financial information, contact Debbie Hughey, Office Manager/ Board Clerk, at 1042 Monte Cristo Lane, Santa Barbara, CA 93108, or by telephone at (805) 969-4200.

MONTECITO SANITARY DISTRICT
STATEMENT OF NET ASSETS
June 30, 2011 and 2010

ASSETS

	2011	2010
Current Assets:		
Cash and investments (Note 2 and 3)	$ 6,768,412	$ 5,573,664
Interest receivable	12,395	12,311
Prepaid insurance	23,070	28,642
Total current assets	6,803,877	5,614,617
Restricted Assets:		
Cash and investments (Note 2 and 3)	7,064,558	8,346,673
Interest receivable	8,048	10,903
Total restricted assets	7,072,606	8,357,576
Capital Assets:		
Depreciable:		
Plant and equipment	34,559,807	34,155,027
Less accumulated depreciation	(14,090,262)	(13,319,658)
	20,469,545	20,835,369
Non-depreciable:		
Construction in progress	1,274,295	95,833
Land and improvements	106,500	106,500
Net capital assets (Note 2 and 4)	21,850,340	21,037,702
Other Assets:		
Bond issuance costs, net (Note 5)	351,975	365,512
State loan receivable	33,028	33,028
Total other assets	385,003	398,540
Total Assets	$ 36,111,826	$ 35,408,435

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF NET ASSETS
June 30, 2011 and 2010

LIABILITIES

	2011	2010
Current Liabilities:		
Accounts payable	$ 25,684	$ 30,742
Accrued salaries and benefits	23,655	58,989
Accrued interest	318,839	323,238
Customer deposits	76,771	68,891
Current portion of long-term debt (Note 7)	300,000	220,000
Total current liabilities	744,949	701,860
Long-Term Liabilities:		
Compensated absences payable (Note 6)	174,123	186,444
Long-term debt, net of current portion (Note 7)	14,358,584	14,663,914
Total long-term liabilities	14,532,707	14,850,358
Total Liabilities	15,277,656	15,552,218

NET ASSETS

	2011	2010
Invested in capital assets, net of related debt	14,475,277	14,874,725
Restricted net assets	141,060	2,151
Unrestricted, designated for retirement benefits obligation	60,535	60,346
Unrestricted	6,157,298	4,918,995
Total Net Assets	$ 20,834,170	$ 19,856,217

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues:		
Service Charges	$ 4,122,851	$ 3,831,673
Connection fees	175,449	127,601
Other services	47,325	23,750
Total operating revenues	4,345,625	3,983,024
Operating Expenses:		
Sewage collection	1,202,811	1,116,788
Sewage treatment	1,379,870	1,380,266
Sewage disposal	71,834	72,762
Administrative	812,627	745,200
Total operating expenses	3,467,142	3,315,016
Income from operations	878,483	668,008
Nonoperating Revenue (Expense):		
Investment income	65,743	105,169
Property taxes	436,007	431,216
Other revenue	864	11,902
Interest expense	(442,109)	(429,219)
Total non-operating revenue	60,505	119,068
Excess of revenue over expenses	938,988	787,076
Capital contributions	38,965	68,282
Change in net assets	977,953	855,358
Net assets at beginning of year	19,856,217	19,000,859
Net assets at end of year	$ 20,834,170	$ 19,856,217

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Cash received from customers	$ 4,353,506	$ 3,983,538
Cash payments to vendors for goods and services	(952,138)	(803,428)
Cash payments to employees for services	(1,782,403)	(1,732,556)
Net cash provided by operating activities	1,618,965	1,447,554
Cash Flows from Noncapital Financing Activities:		
Property taxes	436,007	431,216
Other	864	11,902
Net cash provided by noncapital financing activities	436,871	443,118
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(1,393,004)	(1,457,952)
Interest payments	(637,678)	(646,477)
Extension reimbursements	38,965	68,282
Principal payments on long term debt	(220,000)	(25,000)
Net cash used by capital and related financing activities	(2,211,717)	(2,061,147)
Cash Flows from Investing Activities:		
Investment income received	68,514	132,879
Loan to state	-	(33,028)
Net cash provided by investing activities	68,514	99,851
Net decrease in cash and restricted cash	(87,367)	(70,624)
Cash and restricted cash – beginning of year	13,920,337	13,990,961
Cash and restricted cash – end of year	$ 13,832,970	$ 13,920,337
Reconciliation to Statement of Net Assets:		
Cash and investments	$ 6,768,412	$ 5,573,664
Restricted cash and investments	7,064,558	8,346,673
	$ 13,832,970	$ 13,920,337

See accompanying notes

MONTECITO SANITARY DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 878,483	$ 668,008
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	770,604	718,876
Amortization expense	13,537	13,537
Change in assets and liabilities:		
Prepaids	5,573	13,255
Accounts payable	(5,058)	(9,899)
Accrued salaries and benefits	(35,334)	23,909
Accrued interest	(4,399)	(500)
Customer deposits	7,880	514
Compensated absences	(12,321)	19,854
Net cash provided by operating activites	$ 1,618,965	$ 1,447,554

See accompanying notes

Note 1 - Reporting Entity

Montecito Sanitary District was organized in 1947, pursuant to the Sanitary District Act of 1923, to provide sewage collection and treatment for residents within the District's geographical boundaries.

The District is governed by a board of directors consisting of five members elected at large. The Directors receive fees for attendance at Board and Committee meetings. The Board employs a District Manager, Engineer, Office Manager and such other personnel as are required to meet its responsibilities.

There are no component units included in this report which meet the criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39.

Note 2 - Summary of Significant Accounting Policies

A) Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants (AICPA).

B) Accounting Basis

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the District is that the costs, including depreciation, of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The accounts are maintained and these financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses recognized when they are incurred.

An enterprise fund is accounted for on the "flow of economic resources" measurement focus. This means that all assets and liabilities, whether current or long term, are included on the balance sheet.

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

C) Budget

The District prepares an annual budget which estimates major sources of revenue to be received during the fiscal year, as well as estimated expenditures needed for operation of District facilities.

Note 2 - Summary of Significant Accounting Policies (continued)

D) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include restricted and unrestricted cash and restricted and unrestricted certificates of deposit with original maturities of three months or less.

E) Property, Plant and Equipment

Capital assets purchased by the District are recorded at cost. Contributed or donated capital assets are recorded at fair value when acquired. Interest incurred during the construction period of an asset is capitalized as part of the cost.

F) Depreciation

Capital assets purchased by the District are depreciated over their estimated useful lives (ranging from 5-80 years) under the straight-line method of depreciation.

G) Accumulated Vacation, Compensated Time Off and Sick Leave

Accumulated unpaid employee vacation, compensated time off, and sick leave benefits are recognized as liabilities of the District.

H) Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations – are established by the Assessor of the County of Santa Barbara (County) for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIIA of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

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

Note 2 - <u>Summary of Significant Accounting Policies</u> (continued)

During the fiscal year ended June 30, 1994, the District adopted the "Teeter Plan" as defined in the Revenue and Taxation Code. Under this plan, the District is guaranteed 99.6% of the secured property taxes each year. The District is also assured of receiving 95% of the unsecured property taxes for each fiscal year by July 31 of the following fiscal year. The remaining 5% is placed in a Tax Loss Reserve Fund which will be used to offset future tax sale losses incurred by the County. Additionally, the District is assured of receiving 100% of its sewer service charges for each fiscal year by July 31 of the following year.

Tax Levy Apportionments – Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total District-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees – The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Tax Levies – are limited to 1% of full value which results in a tax rate of $1.00 per $100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as they exist at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

I) <u>Annual Appropriations Limit</u>

The District is exempt from the annual appropriations limit required by Senate Bill 813 (Chapter 1025, Statutes of 1987) in accordance with California Constitution Article XIII B. This exemption is based on a tax rate not greater than 12-1/2 cents per $100 of assessed valuation in 1978.

J) <u>Net Assets</u>

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

K) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the AICPA, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

L) Government Accounting Standards Board Statement No.45

For the fiscal year ended June 30, 2010, the District implemented Government Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension."

This Statement requires that the District account for, and report, the annual cost of other postemployment benefits (OPEB) and the outstanding obligations and commitments related to OPEB in the same manner as it currently does for pensions. The Statement does not require that the District fund their OPEB plans, only that it accounts for them and reports them. OPEB generally consists of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including their beneficiaries in some cases. See Note 10 for further details.

Note 3 - Cash and Investments

Cash and investments are classified in the accompanying financial statements, at fair value, at June 30, 2011 and 2010 as follows:

	June 30, 2011	June 30, 2010
Unrestricted:		
Cash and investments, undesignated	$ 6,707,877	$ 5,513,318
Cash designated for retirement benefits	60,535	60,346
Restricted cash from bond proceeds	7,064,558	8,346,673
Total cash and investments	$ 13,832,970	$ 13,920,337

Investments are carried at fair value as determined by the external investment pool sponsor. Cash and investments as of June 30, 2011 and 2010 consist of the following:

	June 30, 2011	June 30, 2010
Cash on hand	$ 250	$ 250
Deposits held with financial institutions	214,001	148,257
Cash with fiscal agent	618,986	584,935
Deposits held in pooled investment funds	12,999,733	13,186,895
Total cash and investments	$ 13,832,970	$ 13,920,337

Note 3 - Cash and Investments (continued)

Investments Authorized by the District's Investment Policy

The District's investment policy only authorizes investment in the local government investment pool administered by the State of California (LAIF) and the Santa Barbara County Investment Pool. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk and concentration of credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2011:

		Remaining Maturity (in Months)			
Investment Type	Carrying Amount	12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
LAIF	$ 8,079,119	$ 8,079,119	$ -	$ -	$ -
Santa Barbara County Investment Pool	4,920,614	4,920,614	-	-	-
Total	$ 12,999,733	$ 12,999,733	$ -	$ -	$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of June 30, 2011 for each investment type.

				Rating as of Fiscal Year End		
	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	Aa	Not Rated
LAIF	$ 8,079,119	N/A	$ -	$ -	$ -	$ 8,079,119
Santa Barbara County Investment Pool	4,920,614	N/A	-	-	-	4,920,614
Total	$12,999,733		$ -	$ -	$ -	$12,999,733

Note 3 - 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. There are no investments in any one issuer that represent 5% or more of total District investments.

Custodial Credit Risk

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

None of the District's deposits with financial institutions in excess of federal depository insurance limited were held in uncollateralized accounts.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. 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 and the Santa Barbara County Investment Pool).

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 basic financial statements at the amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 4 - Schedule of Capital Assets

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2011, is shown below:

	Balance July 1, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Subsurface Lines	$ 20,778,927	$ 90,103	$ -	$ -	$ 20,869,030
Collection Facilities	3,548,017	58,305	-	-	3,606,322
Treatment Facilities	8,327,787	127,325	-	-	8,455,112
Disposal Facilities	532,466	-	-	-	532,466
Administrative Facilities	967,830	78,792	-	50,255	1,096,877
	34,155,027	354,525	-	50,255	34,559,807
Accumulated Depreciation	(13,319,658)	(770,604)	-	-	(14,090,262)
	20,835,369	(416,079)	-	50,255	20,469,545
Construction in Progress	95,833	1,228,717	-	(50,255)	1,274,295
Land and Improvements	106,500	-	-	-	106,500
Net capital assets	$ 21,037,702	$ 812,638	$ -	$ -	$ 21,850,340

A schedule of changes in capital assets and depreciation for the fiscal year ended June 30, 2010, is shown below:

	Balance July 1, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Subsurface Lines	$ 19,610,992	$ 21,152	$ -	$ 1,146,783	$ 20,778,927
Collection Facilities	3,546,650	1,367	-	-	3,548,017
Treatment Facilities	8,259,420	68,367	-	-	8,327,787
Disposal Facilities	532,466	-	-	-	532,466
Administrative Facilities	458,201	16,654	-	492,975	967,830
	32,407,729	107,540	-	1,639,758	34,155,027
Accumulated Depreciation	(12,600,782)	(718,876)	-	-	(13,319,658)
	19,806,947	(611,336)	-	1,639,758	20,835,369
Construction in Progress	173,251	1,562,340	-	(1,639,758)	95,833
Land and Improvements	106,500	-	-	-	106,500
Net capital assets	$ 20,086,698	$ 951,004	$ -	$ -	$ 21,037,702

Note 5 - Bond Issuance Costs

The District's intangible assets as of June 30, 2011 and 2010 consisted of:

	2011	2010
Unamortized debt issue costs:		
Certificates of participation, Series 2007 net of accumulated amortization of $54,149 and $40,612, respectively.	$ 351,975	$ 365,512

Debt issuance costs are being amortized over 30 years and will be fully amortized in 2037. Estimated amortization expense is as follows for the fiscal years ending June 30:

2012	$ 13,537
2013	13,537
2014	13,537
2015	13,537
2016	13,537
Thereafter	284,290
Total	$ 351,975

Note 6 - Compensated Absences

Employees are entitled to accumulate up to 120 working days of sick leave, at the rate of eight hours per month for full time employees, and pro-rated for part-time employees. If employees retire under the District's retirement program, or voluntarily resign after twenty or more years of service, they would receive full compensation for any unused sick leave, paid at their current salary level. If employees voluntarily resign with less than twenty years of service, they would receive one-half to three quarters of their unused sick leave, depending on the years of service completed.

Employees are also entitled to accumulate vacation leave at a rate of two to five weeks per year, depending on the number of years of service completed. Such accumulated leave cannot exceed two times the employee's annual entitlement. Vacation leave is fully vested at all times and will be paid to employees upon termination of employment.

In accordance with accounting principles generally accepted in the United States of America, the liability is reflected on the statement of net assets and the current fiscal year allocation has been expensed.

Note 7 - Long-Term Debt

The long-term debt liabilities of the District are as follows:

	Balance June 30, 2010	Additions	Retirements/ Amortization	Balance June 30, 2011
Series 2007 Certificates of Participation	$ 14,740,000	$ -	$ (220,000)	$ 14,520,000
Unamortized premiums	143,914		(5,330)	138,584
Net long-term debt	$ 14,883,914	$ -	$ (225,330)	$ 14,658,584

CSDA Finance Corporation Certificates of Participation 2007 Series UU

The CSDA Finance Corporation Certificates of Participation 2007 Series UU were issued March 1, 2007 in the aggregate principal amount of $14,765,000. The CSDA Finance Corporation Certificates of Participation consisted of serial certificates in the principal amount of $4,750,000 bearing an average interest rate of 4%, with the final installment payment due July 1, 2022, term certificates in the amount of $2,615,000 bearing interest of 4.25% due July 1, 2027, term certificates in the amount of $4,020,000 bearing interest of 5% due July 1, 2033, and term certificates in the amount of $3,380,000 bearing interest of 4.3% due July 1, 2037. Interest is payable semi-annually each January 1 and July 1, commencing July 1, 2007. The Certificates shall not be subject to optional prepayment prior to July 1, 2017. The District is required to use the proceeds from the certificates to finance the following expenditures:

1. The acquisition of certain sanitary sewer improvements, in connection with the District's wastewater system.
2. To prepay the District's obligations under the installment Note dated as of May 31, 2005, between the District and Santa Barbara Bank & Trust.
3. To fund in whole or in part, a Reserve Fund for the Certificates.
4. To fund certain capitalized interest with respect to the Certificates.
5. To pay certain costs of issuing the Certificates.

Total annual requirements to amortize the Certificates of Participation are as follows:

Fiscal Year End	Principal	Interest	Total
6/30/2012	$ 300,000	$ 631,678	$ 931,678
6/30/2013	310,000	619,478	929,478
6/30/2014	325,000	606,778	931,778
6/30/2015	340,000	593,478	933,478
6/30/2016	350,000	579,678	929,678
2017 - 2021	1,975,000	2,671,888	4,646,888
2022 - 2026	2,405,000	2,229,963	4,634,963
2027 - 2031	2,975,000	1,643,119	4,618,119
2032 - 2036	3,780,000	823,185	4,603,185
2037 - 2038	1,760,000	76,536	1,836,536
Total	$ 14,520,000	$ 10,475,781	$ 24,995,781

The largest annual debt service payment during any fiscal year totals $933,478.

Note 8 - Deferred Compensation Plan

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

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the employees.

Note 9 - Defined Benefit Pension Plan

Plan Description

The District's defined benefit pension plan, Public Employees' Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The District contributes to the California Public Employees' Retirement System (PERS) Miscellaneous 2% at 55 Risk Pool, a cost-sharing multiple-employer defined benefit pension plan administered by PERS. A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance (other local methods). PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy

Active plan members in the PERS are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. In addition, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate was 7.552% and 7.035% for fiscal years 2011 and 2010, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

Note 9 - Defined Benefit Pension Plan (continued)

Annual Pension Cost

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

Valuation Date	June 30, 2008
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	16 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

The actuarial value of the District's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period. PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over 20 years.

Three Year Trend Information for Montecito Sanitary District Public Employees' Retirement Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
6/30/09	$ 75,950	100%	0
6/30/10	71,721	100%	0
6/30/11	92,445	100%	0

Required Supplementary Information

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

Note 9 - Defined Benefit Pension Plan (continued)

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UL As a % of Payroll [(a)-(b)]/(c)
6/30/2008	$2,780,280,768	$2,547,323,278	$232,957,490	91.6%	$688,606,681	33.8%
6/30/2009	$3,104,798,222	$2,758,511,101	$346,287,121	88.8%	$742,981,488	46.6%
6/30/2010	$3,309,064,934	$2,946,408,106	$362,656,828	89.0%	$748,401,352	48.5%

Note 10 - Post-Employment Health Care Benefits

Plan Description

The District provides retiree medical coverage to current and future eligible retirees and one dependent as defined by the plan. Under the Plan, retired employees who attain age 55 with at least ten years of service are eligible to receive benefits until reaching age 65. The District pays 100% of the health insurance benefits' monthly premium. The spouse of an eligible retiree is also eligible to receive benefits from this plan, and benefits continue until they are Medicare eligible. When the retired employee reaches age 65 the retired employee and the spouse are no longer covered.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and its board of directors. The required contribution is based on projected pay-as-you-go financing requirements. Currently, the District has set aside $60,535 of unrestricted net assets to be used to fund the post-employment health care obligation, and plans to set aside $30,000 each July until adequate funds have been established. The District pays 100% of costs on behalf of the eligible participants.

Annual OPEB Cost and Net OPEB Obligation

The District's OPEB cost is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation for plan benefits:

Annual required contribution	$ 30,236
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	30,236
Contributions made	(30,993)
Decrease in net OPEB	(757)
Net OPEB obligation - beginning of year	10,819
Net OPEB obligation - end of year	$ 10,062

Note 10 - Post-Employment Health Care Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

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

Fiscal Year Ending	Annual OPEB Cost	Percentage Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/09	*	*	*
06/30/10	29,695	64%	10,819
06/30/11	30,236	103%	10,062

* The information for fiscal year ended June 30, 2009 is unavailable. GASB 45 was implemented in fiscal year 2010.

Funded Status and Funding Progress

As of June 30, 2011, the actuarial accrued liability for benefits was $281,750, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $1,273,160, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 22%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented on the following page, and presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

Note 10 - <u>Post-Employment Health Care Benefits</u> (continued)

The following simplifying assumptions were made:

Retirement age for active employees – Based on the CalPERS retirement rates for the 2% at 55 pension formula.

Marital status – Marital status of members at the calculation date. To the extent not provided 80% of retirees were assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

Mortality – Life expectancies were based on CalPERS mortality for Miscellaneous employees.

Turnover – CalPERS turnover for Miscellaneous employees were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was assumed at 4% per year.

Health insurance premiums – 2009 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term inflation assumption of 3 percent was used.

Payroll growth rate – The expected long-term payroll growth rate was assumed equal to the rate of inflation.

Based on long-term return on employer assets, a discount rate of 5 percent was used. In addition, the entry age normal actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. A closed thirty year amortization period was used.

<u>Required Supplementary Information</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Simplified Entry Age (b)	Unfunded AAL (UAAL) (b -a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
3/1/2010	$ 0	$ 281,750	$ 281,750	0%	$1,273,160	22%

Note 11 - 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 disaster.

The District participates in the California Sanitation Risk Management Authority (CSRMA), which arranges for and provides general liability, property damage, workers' compensation and employee dishonesty liability insurance to its member agencies. The District pays a premium commensurate with the level of coverage requested.

Note 12 - Subsequent Events

Subsequent events have been evaluated through November 3, 2011, the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

MONTECITO SANITARY DISTRICT

BOARD OF DIRECTORS

NAME	POSITION	TERM EXPIRES
Jeff Kerns	President	November 2012
Judith M. Ishkanian	Vice President	November 2014
Edward McAniff	Secretary	November 2012
Charles C. Arnold	Treasurer	November 2012
Deirdre M. Cannata	Director	November 2014

MONTECITO SANITARY DISTRICT
SCHEDULE OF OPERATING EXPENSES - BY DEPARTMENT
For the Year Ended June 30, 2011 with Comparative Totals for the Year Ended June 30, 2010

	Collection	Treatment	Disposal	Administration	2011	2010
Salaries and Benefits:						
Salaries	$ 386,170	$ 403,208	$ -	$ 391,793	$ 1,181,171	$ 1,213,935
Stand-by pay	22,869	21,633	-	-	44,502	48,732
Overtime	4,696	8,541	-	-	13,237	10,493
Retirement contribution	40,939	51,013	-	62,205	154,157	164,001
Payroll tax	23,645	18,861	-	53,485	95,991	92,487
Group insurance	97,486	93,091	-	55,113	245,690	246,671
Total Salaries and Benefits	575,805	596,347	-	562,596	1,734,748	1,776,319
Supplies and Services:						
Insurance	27,218	29,024	-	(2,911)	53,331	51,207
Maintenance	86,128	68,262	-	6,265	160,655	118,952
Operating supplies	4,633	136,569	60,823	626	202,651	197,276
Office supplies	1,060	823	-	10,618	12,501	12,850
Memberships	931	707	-	23,182	24,820	23,682
Employee/Community goodwill	-	53	-	2,269	2,322	1,234
Miscellaneous	-	-	-	32	32	5
Office expense	378	-	-	928	1,306	883
Legal services	-	-	-	23,660	23,660	30,993
Consulting services	-	-	-	40,158	40,158	23,007
NPDES permit expenses	-	85,128	-		85,128	53,123
Other professional services	-	-	-	31,330	31,330	33,410
Administrative fees	-	-	-	21,019	21,019	17,814
Research and monitoring	-	15,040	-	-	15,040	11,420
Contract services	29,201	43,428	-	(3,264)	69,365	40,343
Publications and notices	-	-	-	825	825	85
Minor equipment purchases	-	969	-	3,995	4,964	13,981
Training and safety	5,988	5,868	-	3,079	14,935	16,044
Safety Specialist	13,084	13,084	-	-	26,168	-
Travel and meeting costs	2,327	681	-	4,209	7,217	7,246
Fuel and oil	7,322	4,523	-	-	11,845	11,313
Utilities and telephone	19,764	109,883	-	9,334	138,981	141,416
Amortization	-	-	-	13,537	13,537	13,537
Depreciation	428,972	269,481	11,011	61,140	770,604	718,876
Total Supplies and Services	627,006	783,523	71,834	250,031	1,732,394	1,538,697
Totals, June 30, 2011	$1,202,811	$1,379,870	$ 71,834	$ 812,627	$ 3,467,142	
Totals, June 30, 2010	$1,116,788	$1,380,266	$ 72,762	$ 745,200		$ 3,315,016