

DELTA DIABLO SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

PREPARED BY THE
FINANCE DEPARTMENT

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**DELTA DIABLO SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2011 and 2010**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Delta Diablo Sanitation District
Antioch, California

We have audited the accompanying basic financial statements of the Delta Diablo Sanitation District as of and for the years ended June 30, 2011 and 2010. These basic 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 generally accepted auditing standards in the United States of America and the standards for the 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 audits to obtain reasonable assurance as to 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 basic financial statements referred to above present fairly in all material respects, the financial position of the Delta Diablo Sanitation District at June 30, 2011 and 2010 and the changes in financial position and cash flows, thereof for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2011 on our consideration of the Delta Diablo Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Delta Diablo Sanitation District. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maze & Associates

September 29, 2011

DELTA DIABLO SANITATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2011 and 2010

The intent of the management's discussion and analysis (MD&A) is to provide a narrative overview and analysis of the financial activities of Delta Diablo Sanitation District for the fiscal year ended June 30, 2011.

The information provided in this MD&A is reported in condensed format and is presented under the following headings:

- Overview of the Financial Statements
- Financial Highlights
- Financial Analysis
- Capital Assets and Debt
- Economic Factors and Next Year's Budgets and Rates
- Requests for Information

OVERVIEW OF THE FINANCIAL STATEMENTS

This section is intended to serve as an introduction to be read in conjunction with Delta Diablo Sanitation District's basic financial statements. The district-wide financial statements are shown on pages 12-15. The District's basic financial statements are comprised of two components: 1) Fund Financial Statements and 2) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. As a special purpose government, the District reports its financial statements in accordance with business-type activities known as enterprise funds. Enterprise funds are self-supporting funds that charge fees to users to cover the cost of operations, maintenance, capital asset improvements and replacements. Enterprise funds are reported on "accrual basis" of accounting similar to private sector companies. Accrual basis is the basis of accounting under which revenues and gains are recorded when earned, and all expenses and losses are recorded when incurred.

The fund financial statements consist of the *Statement of Nets Assets*, *Statement of Revenues and Expenses and Changes in Net Assets* and *Statement of Cash Flows*.

The *Statement of Nets Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *Net Assets*. Over time, increases or decreases in net assets serve as a useful indicator of whether the financial position of Delta Diablo Sanitation District is improving or deteriorating.

The *Statement of Revenues and Expenses and Changes in Net Assets* presents information showing how the government's net assets changed during the fiscal year. Revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of related cash flows. This statement measures the success of District operations (profitability) for the fiscal year and shows cost recovery from fees and other charges.

The *Statement of Cash Flows* reflects changes in cash and cash equivalents resulting from operational, capital, noncapital, and investing activities. This statement summarizes the inflows (cash receipts) and outflows (cash disbursements) of cash, without consideration of the timing of the event giving rise to the obligation or receipt and excludes noncash transactions like depreciation and amortization of assets.

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

DELTA DIABLO SANITATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2011 and 2010

FINANCIAL HIGHLIGHTS

- The District's combined net assets totaled \$154.1 million.
- During the fiscal year, total net assets increased by \$3.2 million or 2%.
- Total assets increased by \$2.8 million or 2%
- Total liabilities decreased by \$0.3 million or 1%
- Total revenues were \$31.0 million, a decrease of \$5.2 million or 14%.
- Total expenses were \$27.8 million, a decrease of \$2.4 million or 8%.
- Capital contributions were \$4.3 million, a decrease of \$1.9 million or 31%

FINANCIAL ANALYSIS

Statement of Net Assets. As noted earlier, the changes in net assets serve as a useful indicator of Delta Diablo Sanitation District's financial position. During the last three fiscal years, the District's net assets have steadily grown by 3.2 million or 2%, by \$6.0 million or 4% and by \$2.2 million or 2%, respectively.

The current fiscal year's increase is a net result of capital contributions (\$4.3 million) minus a loss before contributions (\$1.1 million). Overall, the District's total assets exceeded total liabilities by \$154.1 million. This positive result is indicative of the District's strong financial position. The largest portion of Delta Diablo Sanitation District's net assets (74%) is invested in capital assets (land, treatment and collection facilities, machinery and equipment) net of related debt. These capital assets are necessary to provide services to District rate payers, so these assets are not available for future spending. For the current fiscal year, these assets decreased due to the net increase in long-term debt partially offset by a minimal net increase in total capital assets. An additional portion of the District's net assets (1%) represents resources that are subject to external restrictions on how they may be used. The decrease in restricted net assets of \$4.8 million for this fiscal year is primarily due to corresponding decreases in restricted investments that were used for capital expansion and escrow for the current fiscal year. The remaining balance of the District's net assets (25%) represents the unrestricted portion of the net assets. Unrestricted net assets increased by \$9.0 million and are a direct result of the District's consecutive cumulative increases in total net assets due to both operating and non-operating activities, thereby providing additional resources available for the District's use in future periods.

Assets and Liabilities. Total assets increased by \$2.8 million or 2%, and total liabilities decreased by \$0.3 million or 1%; resulting in increased total net assets for the current fiscal year by \$3.2 million.

For fiscal year end (FYE) 2011, current and other assets increased by \$2.8 million (7%) from the prior fiscal year primarily due to increases in unrestricted investments and notes receivable, partially offset by decreases in cash, accounts receivable, restricted and designated investments, and employee benefit costs. The increases in unrestricted investments (75%) are due to reduction in the number of large capital expenditures compared to the prior year. The bulk of the large capital investments incurred in the prior fiscal year were for the recycled water project in Pittsburg, which was completed in the prior fiscal year and the recycled water project in Antioch, which is near completion at current year-end. Decreases in restricted cash and investments (82%) are primarily due to releases of accounts held-in escrow as projects are completed and/or near completion and the use of funds previously set aside for capital expansion related projects. The decrease in amounts designated for employee benefit costs was due to a contractually required annual transfer payment made to Contra Costa County Employees Retirement Association (CCCERA) to address the District's unfunded obligation. For additional information on the employee benefit costs, see accompanying notes to the financial statements No.2I –Board Designated Investments. Capital assets (net) increased by less than 1% compared to prior year as there were less project costs incurred for the current year which will be discussed further in the capital assets section of this analysis.

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MANAGEMENT'S DISCUSSION & ANALYSIS
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The net decrease in total liabilities of \$0.3 million was minimal and is attributable to a \$1.5 million decrease in current and other liabilities, offset by the increase in long-term debt (net) of \$1.1 million. For current and other liabilities, moderate decreases in accounts payable and accrued payroll, payments made to the OPEB trust decreasing the net OPEB obligation, and a \$1.1 million reduction in deposits payable due to the release of accounts held in escrow, partially offset by increases in unearned revenue primarily for project reimbursements received in advance from partner agencies. The increase in net long-term debt was due to the installment sale agreement for the new solar project in the amount of \$2.3 million and additional funds drawn from the State of California State Revolving Fund (SRF) loan to fund the Antioch Recycled Water project, offset by scheduled principal and interest payments towards the debt obligations for the year. Additional information on long-term debt is discussed in the debt section of this analysis.

The following tables are shown in comparative format for fiscal year ended June 30, 2011, 2010 and 2009 with variances shown in percent for analysis.

Condensed Statement of Net Assets

| | Fiscal Year Ended June 30 | | | % Increase/(Decrease) | |
|---|---------------------------|----------------------|----------------------|-----------------------|---------------|
| | 2011 | 2010 | 2009 | 2011 vs. 2010 | 2010 vs. 2009 |
| Current and other assets | \$44,671,864 | \$41,889,595 | \$37,691,015 | 7% | 11% |
| Capital assets <i>(net)</i> | 141,066,027 | 141,011,068 | 134,656,092 | 0% | 5% |
| Total assets | <u>\$185,737,891</u> | <u>\$182,900,663</u> | <u>\$172,347,107</u> | 2% | 6% |
| Current and other liabilities | \$5,165,979 | \$6,646,008 | \$5,025,319 | (22)% | 32% |
| Long-term debt <i>(net)</i> | 26,442,120 | 25,300,157 | 22,347,545 | 5% | 13% |
| Total liabilities | <u>\$31,608,099</u> | <u>\$31,946,165</u> | <u>\$27,372,864</u> | (1)% | 17% |
| Net assets | | | | | |
| Invested in capital assets <i>(net of debt)</i> | \$114,623,907 | \$115,710,911 | \$112,308,547 | (1)% | 3% |
| Restricted net assets | 1,796,301 | 6,589,435 | 4,902,692 | (73)% | 34% |
| Unrestricted net assets | 37,709,584 | 28,654,152 | 27,763,004 | 32% | 3% |
| Total net assets | <u>\$154,129,792</u> | <u>\$150,954,498</u> | <u>\$144,974,243</u> | 2% | 4% |

Statement of Revenue and Expenses and Changes in Net Assets. This statement measures the success of the District's over-all operations for the fiscal year and shows cost recovery from user fees and other charges. For three consecutive fiscal years, FYE 2011, FYE 2010, and FYE 2009, the District's revenues exceeded its expenses by \$3.2 million, \$6.0 million and \$2.2 million, respectively. This positive outcome for three consecutive years was due to: the District's efforts in aggressively securing additional funding through grants and subgrants; maintaining a stable revenue base and adding new revenue streams despite economic challenges faced by most municipalities and special districts since 2008; and containing expenditures to ensure service charge rate increases are kept as low as possible without sacrificing the level of service provided to the public.

Revenue. Total revenue excluding capital contributions for the current fiscal year was \$26.7 million, a decrease of \$3.3 million, or 11.0%, over the prior year results. Total revenue for FYE 2010 and FYE 2009 were \$30.0 million and \$25.5 million, respectively.

The decreases in total revenue, excluding capital contributions, was a net result of decreases in other operating revenue of \$3.8 million and \$0.3 million in interest income, partially offset by a moderate increase of total service charges of \$0.8 million for this fiscal year compared to the prior year. The majority of decreases in other operating revenue were due to lower work for others revenue this year. These types of revenues typically vary from year-to-year depending on the operating activities related to multi-agency collaborative and/or multi-year projects; the decrease in interest income was primarily due to the continued downward trend in interest yields that is reflective of the over-all economic market

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MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2011 and 2010

condition. In FYE 2010, other operating revenue was \$6.9 million, an increase of \$4.3 million over FYE 2009. The sharp increase in other operating revenue in FYE 2010 was due to higher work for others earned from large collaborative multi-agency projects including the bay area Biosolids to Energy project, for which the District serves as lead agency.

Interest income in the current fiscal year was \$0.3 million, decreasing by \$0.3 million or 52% compared to prior year, due to historically low interest rates. This is consistent with the continuing downward trend in the short-term interest rate market and over-all declines in the economy since 2008. For FYE 2010 compared to FYE 2009, interest income was \$0.6 million and \$1.3 million, respectively.

FYE 2011 service charges remained strong at \$21.7 million, or 4% higher than FYE 2010 at \$20.9 million, which was 7% higher than FYE 2009. The current year increase is primarily due to a 4.8% Board approved rate increase in wastewater sewer service charges, partially offset by decreases in recycled water service charges. Sewer service charges fund wastewater operations and maintenance, capital asset and capital asset replacement projects. Likewise, recycled water service charges fund recycled water operations, capital asset and capital asset replacements projects. The moderate increase in wastewater sewer service rates is consistent with the rate adjustment approved by the District Board in June 2010. Total recycled water service charges decreased primarily due to the variable component of its service charges as less recycled water was consumed this year compared to the prior year by Calpine, the District's sole recycled water significant industrial user. This decrease was partially offset by the increase in irrigation recycled water charges from City of Pittsburg which has now utilized recycled water for the full year to irrigate its city hall landscape, golf courses and parks.

Property taxes and assessments for FYE 2011 remained steady at \$1.7 million, consistent with the prior year's results. For FYE 2010 compared to FYE 2009, property taxes were \$1.6 million and \$2.1 million, respectively. The decrease experienced in FYE 2010 compared to FYE 2009 of \$0.5 million or 24% was due to continued decline in property values. However, based on virtually flat year-over-year results for FYE 2011 and FYE 2010, this trend appears to have subsided.

Total capital contributions are comprised of capital facilities capacity charges (CFCC)/connections fees and other capital contributions received from intergovernmental funding sources. Compared to the prior fiscal year, total capital contributions decreased by \$1.9 million, or 31%. This net decrease is primarily due to \$2.7 million less grant revenue received compared to the prior year, partially offset by moderate increase in CFCC/connection fees of \$0.8 million. Grant revenue can fluctuate from year-to-year depending on project activities and availability of funds primarily from Federal and State agencies. Last year's grant revenue (FYE 2010) had a sharp increase due to funding for large projects, including heavily grant funded recycled water projects for Antioch and Pittsburg. For FYE 2011, the District received other capital contributions in the form of Federal grants (\$1.5 million), State grants (\$0.4 million) and subgrants (\$0.3 million) totaling \$2.2 million. Other capital contributions for FYE 2010 and 2009 were \$4.8 million and \$1.8 million, respectively.

CFCC revenues are one-time charges assessed to connect to the District's waste water system. These revenues are used to construct expansion projects to serve growth in the District's service area and to pay annual debt service associated with previous expansion projects. CFCC totaled \$2.2 million for FYE 2011, an increase of 55% or \$0.8 million from the prior year largely due to increases in commercial and industrial connections; residential connections fell slightly. This year's total equivalent residential unit (ERU) additions were 456 compared to 306 new ERU last fiscal year. The increase in this year's ERU is primarily due to 150 ERUs from a new energy plant in the City of Antioch. Without this significant industrial user, CFCC revenues are consistent with the decline experienced in the building industry and are substantially below the budget assumption of 400 ERUs. For FYE 2010 and FYE 2009, CFCC revenue was \$1.4 million and \$2.7 million, respectively.

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MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2011 and 2010

Expenses. Combined expenses for FYE 2011 ended totaled \$27.8 million, a decrease of \$2.4 million, or 8%, from prior year. Total expenses for FYE 2010 and FYE 2009 were \$30.2 million and \$27.8 million, respectively. For the current fiscal year, the decrease in combined expenses compared to the prior year was a result of moderate increases in salaries and benefits plus decreases in all other major expense categories.

Salaries and benefits totaled \$13.1 million, a minimal increase of \$0.3 million or 2% compared to the prior fiscal year, primarily due to a combination of the following factors: one position upgrade, merit and cost-of-living adjustments (2.4%), Other Post Employment Benefit (OPEB) costs and a minimal health benefit cost increase partially offset by modest cost savings in worker's compensation and retirement costs. Total salaries and benefits combined for FYE 2010 and FYE 2009 were \$12.8 million and \$12.7 million, respectively. On April 2011, the Laboratory Technician position was upgraded to a Chemist I position. As of June 30, 2011, the District was fully staffed based on Board approved positions. In July 2010, the Board approved the District Retiree Health Funding Plan, whereby employees pay a share of the annual OPEB obligation (1% of salaries) with the District matching the employee's contribution. The net OPEB cost increase was due to the FY2010/2011 scheduled District matching contribution. The modest cost savings in retirement expense for the same period was primarily from the 1% employee contribution towards retirement costs for OPEB being diverted to the pension trust fund for the first half of the fiscal year. This was established as a "work-around" until CalPERS formally determined that direct employee contributions would be considered "compensation earnable" for the purpose of retiree pension calculation. For additional information on OPEB, see accompanying notes to the financial statements No.9 – OPEB. Worker's compensation savings is attributable to the District's good loss experience record.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

| | Fiscal Year Ended June 30 | | | % Increase/(Decrease) | |
|--|---------------------------|---------------|---------------|-----------------------|---------------|
| | 2011 | 2010 | 2009 | 2011 vs. 2010 | 2010 vs. 2009 |
| Service charges | \$21,650,025 | \$20,867,811 | \$19,481,408 | 4% | 7% |
| Other operating revenues | 3,029,475 | 6,858,859 | 2,567,079 | (56)% | 167% |
| Property Taxes | 1,662,436 | 1,636,278 | 2,149,559 | 2% | (24)% |
| Interest income | 275,653 | 568,784 | 1,256,487 | (52)% | (55)% |
| Other non-operating revenues | 35,773 | 35,773 | 35,773 | 0% | 0% |
| Total revenues | \$26,653,362 | \$29,967,505 | \$25,490,306 | (11)% | 18% |
| Salaries and benefits | \$13,089,446 | \$12,806,405 | \$12,650,803 | 2% | 1% |
| Chemicals and utilities | 2,586,077 | 2,713,909 | 3,141,901 | (5)% | (14)% |
| Depreciation and amortization | 5,990,441 | 6,411,047 | 4,868,388 | (7)% | 32% |
| Other operating expenses | 4,954,305 | 5,318,723 | 5,686,985 | (7)% | (6)% |
| Interest expense | 1,174,581 | 1,301,793 | 1,414,645 | (10)% | (8)% |
| Other non-operating expenses | 0 | 1,644,748 | 0 | 0% | 100% |
| Total expenses | \$27,794,850 | \$30,196,625 | \$27,762,722 | (8)% | 9% |
| Income (loss) before capital contributions | (\$1,141,488) | (\$229,120) | (\$2,272,416) | 398% | (90)% |
| Add: Capacity charges - connection fees | 2,160,678 | 1,393,342 | 2,672,259 | 55% | (48)% |
| Add: Other capital contributions | 2,156,104 | 4,816,033 | 1,809,067 | (55)% | 166% |
| Changes in net assets | \$3,175,294 | \$5,980,255 | \$2,208,910 | (47)% | 171% |
| Net assets - beginning of year | \$150,954,498 | \$144,974,243 | \$142,765,333 | 4% | 2% |
| Net assets - end of year | \$154,129,792 | \$150,954,498 | \$144,974,243 | 2% | 4% |

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MANAGEMENT'S DISCUSSION & ANALYSIS
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For FYE 2011, all major expense categories (chemicals and utilities, depreciation expense, other operating expenses, interest expense and other non-operating expenses) except salaries and benefits decreased. The majority of these decreases are due to a combination of cost containment efforts by District staff and/or operational efficiencies achieved this year compared to the prior year.

Depreciation totaled \$6.0 million, decreasing by \$0.4 million, or 7%, due to larger investments in capital assets last fiscal year compared to this year. Other operating expenses totaled \$5.0 million, a decrease of \$0.4 million from last year. This was the third consecutive year operating expenses has decreased due to cost containment efforts and/or operational efficiencies achieved. Other non-operating expense for the current year is zero, compared to the prior year of \$1.6 million, which was due to recognition of loss on disposition of fixed assets in FYE 2010. Interest expense decreased directly due to the downward trend in the interest rate market and payment of principal debt owed.

CAPITAL ASSETS AND DEBT

Capital Assets. Capital assets (net of depreciation) for FYE 2011, FYE 2010, and FYE 2009 totaled \$141.1 million, \$141.0 million and \$134.7 million, respectively. In the current year, the total increase in capital assets (net of depreciation) of less than 1% was minimal compared to the prior year. Construction in progress decreased by \$1.9 million, offset by about the same increase in net capital asset additions. Net capital assets additions of \$1.9 million for this fiscal year were primarily due to capital investments in the treatment and collection systems of \$7.7 million, and machinery and equipment of \$0.2 million, partially offset by accumulated depreciation of \$6.0 million. Construction in progress totaled \$16.6 million for the fiscal year consistent with the District's implementation of its Capital Improvement Program (CIP). The CIP document identifies the District's capital needs with its corresponding sources of revenue over a five-year horizon and is updated annually.

Capital Assets (net of accumulated depreciation)

| | Fiscal Year Ended June 30 | | | % Increase/(Decrease) | |
|-------------------------------------|---------------------------|----------------------|----------------------|-----------------------|---------------|
| | 2011 | 2010 | 2009 | 2011 vs. 2010 | 2010 vs. 2009 |
| Land | \$2,719,251 | \$2,719,251 | \$2,719,251 | 0% | 0% |
| Construction in progress | 16,619,908 | 18,509,862 | 33,623,525 | (10)% | (45)% |
| Treatment & collection system (net) | 120,654,213 | 118,609,091 | 96,987,847 | 2% | 22% |
| Equipment (net) | 1,072,655 | 1,172,864 | 1,325,469 | (9)% | (12)% |
| Total capital assets (net) | <u>\$141,066,027</u> | <u>\$141,011,068</u> | <u>\$134,656,092</u> | 0% | 5% |

Each year, the District continues to expand and improve its wastewater treatment, conveyance and collection systems to comply with stricter environmental regulations as well as minimize sewer overflow and/or any disruptions of service. Major treatment and collection systems purchased and/or constructed by the District (88% of \$7.7 million) for the fiscal year include:

| Project Description | Acquisition Costs |
|---|---------------------------|
| Activated Sludge Process Improvements | \$4,643,412 |
| Aeration System Improvements | 735,825 |
| Replacement Of Arcy Lane Influent | 699,942 |
| Conveyance System Cathodic Protection Replacement | 656,272 |
| Total | <u>\$6,735,451</u> |

DELTA DIABLO SANITATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
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This year's major construction in progress projects (91% of \$16.6 million) include:

| Project Description | Acquisition Costs |
|---|---------------------|
| Antioch Recycled Water Project | \$12,724,567 |
| Bay Area Biosolids To Energy Project Planning | 716,388 |
| Digester No. 1 Rehabilitation | 493,457 |
| Pittsburg Interceptor | 443,205 |
| Treatment Plant Master Plan Update | 356,459 |
| Solar Energy Generation Project | 350,648 |
| Total | \$15,084,723 |

For additional information, see accompanying notes to the financial statements No.5 – Capital Assets.

Debt. Total net debt obligation for FYE 2011, FYE 2010, and FYE 2009 totaled \$26.4 million, \$25.3 million and \$22.3 million, respectively. The 1991 certificates of participation, related interest and 1997 California State Revolving Fund (SRF) loan decrease annually due to scheduled principal payments. The District did not issue any new bonded debt this fiscal year. This outstanding debt previously issued funded improvements, replacements and expansion of the wastewater, recycled water and sewage systems. The source of funds for repayment of debt issued for expansion purposes is the capital facility capacity charges/CFCC. In the current year, additional proceeds from the 2010 SRF loan of \$1.2 million and a new 2011 installment note payable of \$2.3 million *minus* net principal payments of \$2.4 million resulted in a net increase of outstanding debt by \$1.1 million (5%) for the fiscal year. The 2010 SRF loan was entered into by the District in 2009 for the purposes of funding its Antioch recycled water project and as of FYE 2011, the full amount has been drawn from this obligation. The total amount of the loan is \$6.4 million with almost zero percent interest (0.077%) and a 20 years payment term. The new 2011 installment note payable was obligated to fund the solar energy project in the amount of \$2.3 million with an interest rate of 4.9% and a 20 years payment term.

Long-term Debt (net of discount)

| | Fiscal Year Ended June 30 | | | % Increase/(Decrease) | |
|--|---------------------------|---------------------|---------------------|-----------------------|---------------|
| | 2011 | 2010 | 2009 | 2011 vs. 2010 | 2010 vs. 2009 |
| 1991 Certificates of participation (COP) | \$4,583,569 | \$5,544,521 | \$6,569,950 | (17)% | (16)% |
| 1991 COP accreted interest | 11,934,180 | 13,156,240 | 14,176,870 | (9)% | (7)% |
| 1997 State revolving fund loan (SRF) | 1,221,736 | 1,412,922 | 1,600,725 | (14)% | (12)% |
| 2010 SRF loan | 6,358,425 | 5,186,474 | | 23% | 100% |
| 2011 Installment Note Payable | 2,344,210 | | | | |
| Total long-term debt (<i>net</i>) | <u>\$26,442,119</u> | <u>\$25,300,157</u> | <u>\$22,347,545</u> | 5% | 13% |

For additional information, see accompanying notes to the financial statements No.7 – Long-term Debt.

The latest debt rating review (2009) received by the District resulted in the credit rating being upgraded by Standard & Poors (S&P) from AA- to AA. S&P views the outlook for this AA rating as stable and reflects the District's very strong financial performance. This is evidenced by the continued strong debt service coverage and strong liquidity; competitive rates; manageable capital plan with expansion costs historically financed from connection fees; and a stable and diverse customer base.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Economic Factors. As noted earlier, the District is operates as an enterprise fund and is therefore self-supporting. The District charges fees to users to cover the cost of operations, maintenance, capital asset improvements and replacements. Economic factors that may affect the District include:

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- Continued economic downturn and/or slow economic recovery: affects the District's capacity/connection fees, which is based on construction growth and development; and over-all investment income, which is dependent on prevailing market interest rates. Also, the economy may affect the District's ability to collect some fees that are billed. Any market losses can potentially affect District investments and OPEB trust fund balances.
- Changes in the State budget and future legislation, even with the recent passage of California Proposition 22, which established a ban on future state borrowing from local governments. The State is facing a continued budget crisis and unfavorable economic conditions may increase the District's contributions to the retirement trust fund.
- Changes in Federal budget and legislation could affect the District's ability to secure additional Federal grant funding and low interest loans.
- Decline in assessed property values affects the District's property tax revenue.

Next Year's Budget and Rates. The District has a three-year operating budget cycle, with the latest covering FY2009/10 through FY2011/12. The District annually conducts reviews and updates the budget document although Board policy is that the budget appropriation must be adopted by the first meeting in July. The District Board typically adopts budget appropriations annually in June for the upcoming fiscal year starting in July. FY2011/12 is the third and final year of the current three-year operating budget cycle.

In July 2011, the Board adopted the FYE 2012 operating budget with a total District budget expense appropriation of \$38.0 million. There are no proposed changes to the previously adopted FY 2011/12 operating budget for any of the programs.

As noted earlier, the District has a five-year Capital Improvement Program which is updated annually. In May 2011 the Board adopted the FY2011/12–2015/16 CIP. The 2011 update of the capital plan includes additional projects over the next five years in support of the District's five core programs: Wastewater, Recycled Water, Household Hazardous Waste, Street Sweeping and Bay Point Collection. Due to large capital projects planned for wastewater expansion funds within the next five years, additional funding may be provided to these funds through short-term inter-fund borrowing with interest from the Capital Asset Replacement Fund. As a policy, the District Board approves any inter-fund borrowing and/or external debt financing.

With the exception of funding a portion of the District's share of recycled water projects, to minimize the impact of potential property tax revenue shifts on rates, the District's budgets all property tax revenue towards the wastewater capital asset replacement fund, thereby not assuming any use of these revenues for ongoing operations.

The District's collection of sewer service charges is primarily done through the County Property Tax Roll. Actual increases to these charges, if any, are considered by the Board annually based on updated cash flow projections. At the June 8, 2011 Board meeting, the Board approved a total of 7.5% rate increase on sewer service charges for FY 2011/12. This total increase comprises of a 4.8% rate increase needed to adequately meet projected expenditures for the year coupled with an additional increase of 2.7% to begin setting aside funds for a future major advanced treatment project anticipated that is required to meet new discharge regulations. The additional 2.7% are deposited into a Board approved designated reserve fund for future advanced treatment costs. This early initiation of funding will avoid significant rate spikes in the future.

DELTA DIABLO SANITATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2011 and 2010

On May 2011, the new recycled water rates were established and approved by the District as the City of Antioch is scheduled to begin irrigation service for the Lone Tree Golf Course and three city parks by next fiscal year. The expansion of the recycled water program will result in a favorable environmental and fiscal impact for the District and its rate-payers. The recycled water rate was reviewed and recommended for approval by the recycled water Advisory Committee on rates composed of Calpine, the Cities of Pittsburg and Antioch, and District staff.

The District participates in a qualified, irrevocable trust fund that is established solely for the purpose of paying OPEB obligations. As of FYE 2011, the irrevocable trust fund has a balance of \$2.0 million. In July 2011, per the Board approved District Retiree Health Funding Plan, employees will begin contributing to the OPEB trust a total of 2% of their salaries, which is 1% higher than prior year. The District will be matching the employee's contribution. For additional information on OPEB, see accompanying notes to the financial statements No.9 – OPEB.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, customers, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funding it receives. Questions concerning the information provided in this report or requests for additional financial information should be addressed to Delta Diablo Sanitation District - Finance Division at 2500 Pittsburg Antioch Highway, Antioch, California 94509.

DELTA DIABLO SANITATION DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2011
With Comparative Totals as of June 30, 2010

| ASSETS | 2011 | 2010 |
|---|--------------------|--------------------|
| CURRENT ASSETS | | |
| Cash (Note 2) | \$1,468,637 | \$3,926,690 |
| Investments (Note 2) | 30,800,106 | 17,576,070 |
| Accounts receivable | 1,435,264 | 5,527,882 |
| Interest receivable | 24,897 | 17,661 |
| Notes receivable, current portion (Note 3) | 5,873,159 | 4,394,113 |
| Employee computer loans receivable, current portion (Note 4) | 19,504 | 19,504 |
| Materials and supplies (Note 1. H.) | 812,930 | 736,715 |
| Prepaid expenses | 274,995 | 72,084 |
| Total current assets | 40,709,492 | 32,270,719 |
| NON-CURRENT ASSETS | | |
| RESTRICTED CASH AND INVESTMENTS (Note 2I) | | |
| Escrow | 259,940 | 1,405,711 |
| Debt service | 1,766,556 | 1,766,518 |
| Capital expansion | | 4,180,792 |
| Total restricted cash and investments | 2,026,496 | 7,353,021 |
| DESIGNATED CASH AND INVESTMENTS (Note 2J) | | |
| Operations and maintenance rate stabilization | 600,000 | 600,000 |
| Related employee benefit costs | 753,206 | 962,561 |
| Insurance | 500,000 | 500,000 |
| Total designated cash and investments | 1,853,206 | 2,062,561 |
| OTHER ASSETS | | |
| Notes receivable, less current portion (Note 3) | 76,871 | 189,591 |
| Employee computer loans receivable, less current portion (Note 4) | 5,799 | 13,703 |
| Total other assets | 82,670 | 203,294 |
| CAPITAL ASSETS: | | |
| Capital assets, non-depreciable (Note 5) | 19,339,160 | 21,229,113 |
| Depreciable capital assets, net of Accumulated depreciation (Note 5) | 121,726,867 | 119,781,955 |
| Total capital assets, net | 141,066,027 | 141,011,068 |
| Total noncurrent assets | 145,028,399 | 150,629,944 |
| TOTAL ASSETS | 185,737,891 | 182,900,663 |

(Continued)

See accompanying notes to financial statements

DELTA DIABLO SANITATION DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2011

With Comparative Totals as of June 30, 2010

| | 2011 | 2010 |
|---|---------------|---------------|
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$1,629,181 | \$1,927,528 |
| Accrued payroll and benefits | 991,279 | 1,543,333 |
| Deposits payable | 326,381 | 1,415,210 |
| Unearned revenue | 859,644 | 210,526 |
| Compensated absences - due within one year (Note 6) | 595,155 | 422,782 |
| Current portion of long-term debt (Note 7) | 3,951,703 | 3,506,189 |
| Property tax refund - due within one year | 20,673 | 15,561 |
| Accrued interest payable | 11,014 | 12,738 |
| Total current liabilities | 8,385,030 | 9,053,867 |
| LONG-TERM LIABILITIES | | |
| Long-term debt, net of current portion (Note 7) | | |
| Certificates of participation | 3,684,374 | 4,583,569 |
| State revolving fund loans | 7,069,923 | 6,408,207 |
| Installment sale agreement | 2,212,745 | |
| Accreted interest | 9,523,375 | 10,802,192 |
| Total long-term debt, net of current portion | 22,490,417 | 21,793,968 |
| Compensated absences -net of current portion (Note 6) | 185,168 | 283,158 |
| Property tax refund, net of current portion | 31,121 | 46,682 |
| Net OPEB obligation (Note 9) | 516,363 | 768,490 |
| Total long-term liabilities | 23,223,069 | 22,892,298 |
| TOTAL LIABILITIES | 31,608,099 | 31,946,165 |
| NET ASSETS (Note 11) | | |
| Invested in capital assets, net of related debt | 114,623,907 | 115,710,911 |
| Restricted for debt service | 1,766,556 | 1,766,518 |
| Restricted for capital projects | 29,745 | 4,822,917 |
| Unrestricted | 37,709,584 | 28,654,152 |
| TOTAL NET ASSETS | \$154,129,792 | \$150,954,498 |

See accompanying notes to financial statements

DELTA DIABLO SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Service charges | \$21,650,025 | \$20,867,811 |
| Discharge permits | 191,200 | 193,942 |
| Household hazardous waste operating fees | 464,830 | 430,508 |
| Miscellaneous | 351,168 | 309,303 |
| Work for others | <u>2,022,277</u> | <u>5,925,106</u> |
| Total operating revenues | <u>24,679,500</u> | <u>27,726,670</u> |
| OPERATING EXPENSES | | |
| Salaries and benefits | 13,089,446 | 12,806,405 |
| Chemicals | 1,144,660 | 1,217,860 |
| Depreciation (Note 5) | 5,990,441 | 6,411,047 |
| Office expense | 737,847 | 746,547 |
| Operating expense | 633,835 | 617,005 |
| Outside service and maintenance | 3,368,044 | 3,703,991 |
| Travel and meetings | 88,514 | 88,321 |
| Utilities | 1,441,417 | 1,496,049 |
| Other | <u>126,065</u> | <u>162,859</u> |
| Total operating expenses | <u>26,620,269</u> | <u>27,250,084</u> |
| OPERATING INCOME (LOSS) | <u>(1,940,769)</u> | <u>476,586</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest expense | (1,174,581) | (1,301,793) |
| Interest income | 275,653 | 568,784 |
| Capital facilities capacity charges (Note 1.I.) | 2,160,678 | 1,393,342 |
| Lease revenue (Note 12) | 35,773 | 35,773 |
| State grants | 389,697 | 2,254,643 |
| Federal grants | 1,478,384 | 2,402,617 |
| Subgrants | 288,023 | 158,773 |
| Gain (Loss) on disposition of capital assets | | (1,644,748) |
| Property taxes | <u>1,662,436</u> | <u>1,636,278</u> |
| Total nonoperating revenues (expenses), net | <u>5,116,063</u> | <u>5,503,669</u> |
| NET INCOME | 3,175,294 | 5,980,255 |
| NET ASSETS, BEGINNING OF YEAR | <u>150,954,498</u> | <u>144,974,243</u> |
| NET ASSETS, END OF YEAR | <u>\$154,129,792</u> | <u>\$150,954,498</u> |

See accompanying notes to financial statements

DELTA DIABLO SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

| | 2011 | 2010 |
|---|--------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$28,772,118 | \$24,103,890 |
| Payments to employees | (13,819,244) | (12,645,203) |
| Payments to utilities | (1,441,417) | (1,496,049) |
| Payments to contractual/professional services | (4,456,873) | (2,707,830) |
| Payments to suppliers | (3,093,815) | (3,068,827) |
| Other receipts (payments) | 434,539 | (314,260) |
| | <u>6,395,308</u> | <u>3,871,721</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Taxes | 1,651,987 | 1,636,278 |
| State, federal and sub grants | 2,156,104 | 4,816,033 |
| Receipts on employee computer loans | 7,904 | (9,270) |
| | <u>3,815,995</u> | <u>6,443,041</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition of capital assets net of adjustments for physical inventory | (6,045,400) | (14,417,205) |
| Proceeds from sale of capital assets | | 6,432 |
| Proceeds from SRF loan | 1,171,951 | 5,186,474 |
| Interest paid on long-term debt | (1,176,305) | (1,303,486) |
| Payment of long-term debt | (1,152,138) | (1,148,755) |
| Connection fees | 2,160,678 | 1,393,342 |
| | <u>(5,041,214)</u> | <u>(10,283,198)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Redemption and acquisition of investments, net | (7,935,382) | 1,191,209 |
| Receipts on note | 3,050 | 136,710 |
| Interest received on investments | 268,417 | 600,306 |
| Interest received on lease | 35,773 | 35,773 |
| | <u>(7,628,142)</u> | <u>1,963,998</u> |
| NET INCREASE (DECREASE) IN CASH | (2,458,053) | 1,995,562 |
| Cash, beginning of year | 3,926,690 | 1,931,128 |
| Cash, end of year | <u>\$1,468,637</u> | <u>\$3,926,690</u> |
| Reconciliation of operating (loss) to net cash provided by operating activities: | | |
| Operating income (loss) | (\$1,940,769) | \$476,586 |
| Adjustments to reconcile operating loss to cash flows from operating activities: | | |
| Depreciation | 5,990,441 | 6,411,047 |
| Change in assets and liabilities: | | |
| Receivables, net | 4,092,618 | (3,622,780) |
| Materials and supplies | (76,215) | (128,574) |
| Prepaid expenses | (202,911) | 107,015 |
| Accounts payable and accrued expenses | (298,347) | (465,856) |
| Accrued payroll and related expenses | (477,671) | 267,605 |
| Deposits payable | (1,088,829) | 996,161 |
| Unearned revenue | 649,118 | (63,080) |
| Net OPEB Obligation | (252,127) | (106,403) |
| | <u>\$6,395,308</u> | <u>\$3,871,721</u> |
| SCHEDULE OF NON CASH ACTIVITY | | |
| Loss on disposal of capital assets | | (\$1,651,180) |
| Accreted interest on bonds | (\$1,278,817) | (1,085,107) |

See accompanying notes to financial statements

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**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *General*

The District was formed in 1955 and later incorporated in October 1976 to serve the territory of the cities of Antioch and Pittsburg and the community of Bay Point. Treatment of the wastewater collected from the three communities began in 1982.

The District constructs and operates subregional sewage facilities and is responsible for maintenance of the collection system in Bay Point.

The District is divided into three separate zones and may impose different service charges for each area in accordance with the benefits received by those areas.

B. *Reporting Entity*

As required by generally accepted accounting principles, these basic financial statements present Delta Diablo Sanitation District and its component unit. The component unit discussed in the following paragraph is included in the District's reporting entity because of the significance of its operational or financial relationships with the District.

Blended Component Unit - The Delta Diablo Integrated Financing Corporation was organized November 1, 1988, under the Non-Profit Public Benefit Corporation Law of the State of California solely for the purpose of providing financial assistance to the District by acquiring, constructing, improving and financing various facilities, land and equipment, and by leasing or selling certain facilities, land and equipment for the use, benefit and enjoyment of the public served by the District. The Corporation has no members and the Board of Directors of the Corporation consists of the same persons who are serving as the Board of Directors of the District. There are no basic financial statements prepared for the Corporation.

C. *Basis of Accounting*

Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets display information about the Delta Diablo Sanitation District. Eliminations have been made to minimize the double counting of internal activities. Business-type activities are financed in whole or in part by fees charged to external parties.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets and Budgetary Accounting

Delta Diablo Sanitation District has a three-year operating budget cycle. The District annually conducts a review and updates the operating budget document, which is approved and adopted by the Board. For capital budgets, the District has a five-year Capital Improvement Program which is updated annually and adopted by the Board. Budgetary controls are used and maintained by the District to facilitate compliance with the annually appropriated budget.

E. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Compensated Absences

The total amount of liability for compensated absences is reflected in the basic financial statements. See Note 6 for additional information regarding compensated absences.

G. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include all cash and temporary investments with original maturities of three months or less from the date of acquisition.

H. Materials and Supplies

Inventories consist of operational materials and supplies, which are valued using the weighted average costing method.

I. Revenues – Capital Facilities Capacity Charges

Capital facilities capacity charges represent a one-time, non-discriminatory charge imposed at the time a structure is connected to the District's system, directly or indirectly, or an existing structure or category of use is expanded or increased. The charge is to pay for District facilities in existence at the time the charge is imposed, or to pay for new facilities to be constructed in the future, that are of benefit to the property being charged.

Revenues derived from these charges are used for the acquisition, construction and reconstruction of the wastewater collection, conveyance, treatment and disposal facilities of the District, to repay principal and interest on debt instruments, or to repay federal or State loans for the construction and reconstruction of the sewerage facilities, together with costs of administration and provisions for necessary reserves.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Implementation of Governmental Accounting Standards Board (GASB) Statements

GASB Statement No. 54 - Fund Balance Reporting and Governmental Fund Type Definitions. This statement establishes fund balance classifications for governmental funds that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement provides for additional classification as nonspendable, restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. This statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. This statement did not have an impact on the District's financial statements.

GASB Statement No. 59 - Financial Instruments Omnibus. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. This statement did not have an impact on the District's financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Policies

The District and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the District employs the Trust Department of a bank as the custodian of all District managed investments, regardless of their form.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the District's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the District's name and places the District ahead of general creditors of the institution pledging the collateral.

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year. In the District's case, fair value equals fair market value, since all District's investments are readily marketable.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – CASH AND INVESTMENTS (Continued)

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted.

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Cash, available for District operations | \$1,468,637 | \$3,926,690 |
| Investments, available for District operations | 30,800,106 | 17,576,070 |
| Restricted cash and investments | 2,026,496 | 7,353,021 |
| Designated cash and investments | 1,853,206 | 2,062,561 |
| Total Cash and Investments | \$36,148,445 | \$30,918,342 |

The District's cash and investments consist of the following at June 30:

| | 2011 | 2010 |
|--------------------------------------|---------------------|---------------------|
| Cash on hand | \$800 | \$800 |
| Deposits with County | 617,666 | 490,392 |
| Deposits with financial institutions | 836,531 | 1,202,454 |
| Investments | 34,433,508 | 27,818,985 |
| Restricted cash in escrow | 259,940 | 1,405,711 |
| Total Cash and Investments | \$36,148,445 | \$30,918,342 |

C. Investments Authorized by the California Government Code and the District's Investment Policy

The District's Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the District's Investment Policy where it is more restrictive:

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|------------------|------------------------|---------------------------------|----------------------------------|
| United States Treasury Obligations | 5 years | | 100% | No Limit |
| United States Government Agency Obligations | 5 years | | 100% | No Limit |
| State of California Obligations | 5 years | | 100% | No Limit |
| Local Agency Obligations | 5 years | | 100% | No Limit |
| Banker's Acceptances | 180 days | | 40% | 30% |
| Commercial Paper | 270 days | A-1 | 25% | 10% |
| United States Medium Term Corporate Notes | 5 years | AA | 30% | No Limit |
| Negotiable Certificates of Deposit | 1 year | AA | 30% | No Limit |
| | | | \$40 million | |
| Local Agency Investment Fund | n/a | | per account | No Limit |
| Local Government Investment Pools | n/a | AAA | 100% | No Limit |
| Money Market Mutual Funds | n/a | | 15% | 10% |
| Insured savings or money market accounts | n/a | | 100% | No Limit |

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions related to maturities and credit ratings, where applicable, of these investments:

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality |
|---------------------------------------|----------------------|------------------------|
| U.S. Treasury Obligations | | |
| U.S. Government Sponsored Enterprises | | |
| U.S. Agency Obligations | | |
| State Obligations: | | |
| Long-term General Obligations | | A |
| Short-term General Obligations | | Highest to A-1+ |
| Special Revenue Bonds | | AA |
| Demand Deposits | | |
| Time Deposits | | |
| Unsecured Certificates of Deposit | 30 days | A-1 |
| FDIC Insured Deposits | | |
| Repurchase Agreements | 30 days | A-1 to A |
| Investment Agreements | | AA |
| Pre-refunded Municipal Obligations | | AAA |
| Prime Commercial Paper | 270 days to 365 days | A-1 to A-1+ |
| Banker's Acceptances | | |
| Money Market Mutual Funds | | Aam or AAam-G |
| State Pooled Investment Fund | | |
| Local Agency Investment Fund | | |

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call dates, at June 30, 2011:

| Investment Type | 12 Months or less | 13 to 24 Months | 25 to 60 Months | Total |
|---|----------------------|--------------------|--------------------|---------------------|
| <i>Held by District:</i> | | | | |
| U.S. Government Agency Obligations | \$1,206,342 | \$1,219,074 | \$1,072,437 | \$3,497,853 |
| Corporate Notes | 2,024,472 | 1,242,803 | 1,002,989 | 4,270,264 |
| California Local Agency Investment Fund | 24,865,268 | | | 24,865,268 |
| Money Market Mutual Funds (U.S. Securities) | 13,641 | | | 13,641 |
| <i>Held by Trustees:</i> | | | | |
| Certificates of Deposit | 745,572 | 1,019,363 | | 1,764,935 |
| Money Market Mutual Funds (U.S. Securities) | 21,547 | | | 21,547 |
| Total Investments | \$28,876,842 | \$3,481,240 | \$2,075,426 | \$34,433,508 |

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2011, these investments matured in an average of 237 days.

Money market mutual funds are available for withdrawal on demand and at June 30, 2011, matured in an average of 24 days.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – CASH AND INVESTMENTS (Continued)

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2011 for each investment type as provided by Moody's investment rating system:

| Investment Type | Aaa | Total |
|---|--------------------|---------------------|
| <i>Held by District:</i> | | |
| U.S. Government Agency Obligations | \$3,497,853 | \$3,497,853 |
| Corporate Notes | 4,270,264 | 4,270,264 |
| Money Market Mutual Funds (U.S. Securities) | 13,641 | 13,641 |
| <i>Held by Trustees:</i> | | |
| Certificates of Deposit | 1,764,935 | 1,764,935 |
| Money Market Mutual Funds (U.S. Securities) | 21,547 | 21,547 |
| Totals | <u>\$9,568,240</u> | 9,568,240 |
| <i>Not rated:</i> | | |
| California Local Agency Investment Fund | | <u>24,865,268</u> |
| Total Investments | | <u>\$34,433,508</u> |

G. Concentration Risk

At June 30, 2011, significant investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds, and external investment pools, are set forth below:

| Issuer | Investment Type | Reported Amount |
|------------------------------|---------------------------|-----------------|
| Federal Home Loan Bank | Federal agency securities | \$2,291,511 |
| General Electric Corporation | Corporate Note | 2,024,472 |

H. Restricted Cash and Investments

The District has the following restrictions on cash and investments:

Restricted for Escrow – The District has restricted investments in an escrow account for various construction projects in the amounts of \$259,940 and \$1,405,711 as of June 30, 2011 and June 30, 2010, respectively.

Restricted for Debt Service - The District has moneys held by Wells Fargo Bank as trustee, pledged to the payment or security of its outstanding bond issues. All transactions associated with debt service are administered by the Bank. The cash and investment amounts for June 30, 2011 are \$43,976 and \$1,722,580 respectively, totaling \$1,766,556. The cash and investment amounts for June 30, 2010 were \$43,976 and \$1,722,580 respectively, totaling \$1,766,518.

Restricted for Capital Expansion - The District has restricted investments for the acquisition, construction and reconstruction of the wastewater collection, conveyance, treatment and disposal facilities of the District in the amounts of \$0 and \$4,180,792 as of June 30, 2011 and June 30, 2010, respectively.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – CASH AND INVESTMENTS (Continued)

I. Board Designated Investments

The District has the following designations on investments as of June 30, 2011:

Designated for Operations and Maintenance Rate Stabilization - The District has designated investments for rate increases due to loss of revenue, increased retirement costs or other unanticipated significant expenses in the amount of \$600,000.

Designated for Related Employee Benefits Costs - The District has designated investments in accordance with employee labor contracts for the purpose of paying future benefits in connection with salary continuation in the amount \$94,260.

The District has designated investments to fund future increases associated with employee benefit costs. The District discontinued participation in the Contra Costa County Employees Retirement Association (CCCERA) effective June 20, 2004. The termination agreement provides for an evaluation of any additional liability owed to CCCERA every three years. CCCERA retained certain assets contributed by the District and they remain responsible for retiree benefits for retirees and deferred vested members who were not transferred to the CalPERS system. The designation of 2.44% of payroll annually for Employee Benefit Costs will be a source of funds to address this or other liabilities due to employee benefit costs increases. On December 17, 2010, CCCERA's actuary has conducted and determined the District's termination liability using the triennial experience analysis as of December 31, 2009. Based on this analysis and in accordance with the termination agreement with CCCERA, the District's unfunded obligation is \$3,130,886 to be amortized in 15 years, resulting in an annual payment transfer of \$360,215 starting December 31, 2010. On December 22, 2010 the District paid the required annual payment transfer to CCCERA. As of June 30, 2011, the amount designated by the District for Employee Benefit Costs is \$658,946.

As of June 30, 2011, the total amount for designated related employee benefits costs is \$753,206.

Designated for Insurance - The District has designated investments for potential insurance claims in the amount of \$500,000.

NOTE 3 – NOTES RECEIVABLE

Recycled Water (RW) – The District and the City of Antioch (City) entered into a Joint Powers Agreement on November 18, 2003, for the purpose of development and operation of a “Recycled Water Program” (the Project). Under the provisions of the agreement, the Project is to be jointly funded (50/50) by the District and the City. The District is authorized to design, construct, own, operate and regulate the facilities. To date, \$12,724,567 has been spent on the Project. As of June 30, 2011, the District recognized a Notes Receivable in the amount of \$5,753,348 from the City of Antioch for their net share of the costs for this project. It is expected that the City of Antioch will fund its share of the project costs primarily from the SRF loan secured by the District for this project. See Note 12C for additional information.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 3 – NOTES RECEIVABLE (Continued)

Household Hazardous Waste (HHW) - The District owns and operates a Household Hazardous Waste (HHW) and a Conditionally Exempt Small Quantity Generator (CESQG) waste collection facility. In an agreement dated July 1, 2002, Contra Costa County, Ironhouse Sanitary District and the Cities of Antioch, Brentwood and Pittsburg (Subscribers) agreed to reimburse the District for capital costs in planning and constructing the household hazardous waste facility.

On April 9, 2008, this agreement was amended and includes capital cost sharing minus any grants received for the planning and construction of the new facility expansion. The DHHWCF expansion was completed in September 2009. Per the provisions of this amendment, the outstanding Principal balance from the original facility construction will be combined with the new facility expansion costs, to be re-paid over a 25-year period with interest at 6% per annum. The City of Brentwood paid its share in full. Total capital costs were allocated to the Subscribers based on the number of housing units in each Subscriber's jurisdiction.

La Chicana Note - On May 31, 2011, the District and La Chicana Restaurant entered into an agreement for the payments of the remaining Capital Facility Capacity Charges (CFCC) for the property at 2135 Willow Pass Road in Bay Point. The remaining balance of \$7,092 is due over 36 months at 4.25% interest. The initial payment of \$210 is due July 1, 2011.

Notes receivable at June 30 consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|-----------------------------|--------------------|--------------------|
| RWF | | |
| City of Antioch | \$5,753,348 | \$4,391,064 |
| HHW | | |
| Ironhouse Sanitary District | 116,280 | 118,151 |
| Contra Costa County | 73,310 | 74,489 |
| La Chicana note | <u>7,092</u> | |
| Total Notes Receivable | 5,950,030 | 4,583,704 |
| Less: Current Portion | <u>(5,873,159)</u> | <u>(4,394,113)</u> |
| Long-Term Portion | <u>\$76,871</u> | <u>\$189,591</u> |

NOTE 4 – EMPLOYEE COMPUTER LOANS RECEIVABLE

The District provides a zero interest loan to its employees for the purchase of personal computers. These loans are payable in a maximum of 78 equal payroll deductions (3 years). The maximum amount each employee may borrow is \$2,500. As of June 30, the receivable was as follows:

| | <u>2011</u> | <u>2010</u> |
|-------------------------|-----------------|-----------------|
| Employee computer loans | \$25,303 | \$33,207 |
| Less: current portion | <u>(19,504)</u> | <u>(19,504)</u> |
| Long-term portion | <u>\$5,799</u> | <u>\$13,703</u> |

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – CAPITAL ASSETS

Property, plant and equipment are recorded at the time of purchase and are capitalized at cost. The District capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset. Contributed capital assets are valued at their estimated fair market value on the date contributed. The District defines capital assets as property, plant and equipment with an initial individual cost of \$5,000 and an estimated useful life in excess of one year.

Depreciation is provided using the straight-line method for assets other than land. Estimated useful lives are as follows:

| | |
|-----------------------------------|----------|
| Conveyance and collection systems | 50 years |
| Treatment plant | 40 years |
| Office furniture | 15 years |
| Shop, lab and other equipment | 10 years |
| Computer equipment | 3 years |
| Vehicles | 3 years |

Changes in property, plant and equipment accounts are summarized below:

| | Balance at June 30, 2010 | Additions | Transfers | Balance at June 30, 2011 |
|--|-----------------------------|--------------------|--------------------|-----------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$2,719,251 | | | \$2,719,251 |
| Construction in Progress | 18,509,862 | \$6,006,771 | (\$7,896,724) | 16,619,909 |
| Total capital assets not being depreciated | <u>21,229,113</u> | <u>6,006,771</u> | <u>(7,896,724)</u> | <u>19,339,160</u> |
| Capital assets being depreciated: | | | | |
| Treatment & Collection System | 188,780,337 | | 7,671,539 | 196,451,876 |
| Equipment | 3,807,698 | 38,629 | 225,185 | 4,071,512 |
| Total capital assets being depreciated: | <u>192,588,035</u> | <u>38,629</u> | <u>7,896,724</u> | <u>200,523,388</u> |
| Less accumulated depreciation for: | | | | |
| Treatment & Collection System | 70,171,246 | 5,626,418 | | 75,797,664 |
| Equipment | 2,634,834 | 364,023 | | 2,998,857 |
| Total accumulated depreciation | <u>72,806,080</u> | <u>\$5,990,441</u> | | <u>78,796,521</u> |
| Net capital assets being depreciated | <u>119,781,955</u> | | | <u>121,726,867</u> |
| Total Capital Assets, net | <u>\$141,011,068</u> | | | <u>\$141,066,027</u> |

Construction in progress represents construction of treatment and collection facilities.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 6 – ACCRUED COMPENSATED ABSENCES

Accumulated unpaid vacation and compensatory time have been accrued at June 30, 2011 in the amount of \$780,323. Accumulated unpaid sick pay is not included in the amount for accrued benefits due to the contingent nature of any future payment.

The changes in compensated absences were as follows at June 30, 2011:

| | |
|-------------------|------------------|
| Beginning Balance | \$705,940 |
| Additions | 633,050 |
| Payments | <u>(558,667)</u> |
| Ending Balance | <u>\$780,323</u> |
| Current Portion | <u>\$595,155</u> |

In addition, the Board has set up a Catastrophic Leave Bank, which accumulates up to 40 hours from each terminated employee's forfeited sick leave. Employees may also donate vacation hours. This time may be used by employees who have used all their sick leave due to catastrophic illness and need additional time off. Accumulated Catastrophic Leave at June 30, 2011 was \$117,813, and is included in the balance of Accrued Payroll and Benefits on the Statements of Net Assets.

NOTE 7 – LONG-TERM DEBT

A. Current Year Transactions and Balances

| | Original Issue Amount | Balance June 30, 2010 | Additions | Retirements | Balance June 30, 2011 | Amount due within one year |
|---|-----------------------------|--------------------------|---------------------|--------------------|--------------------------|----------------------------------|
| 1991 Certificates of Participation | | | | | | |
| Wastewater Facilities Expansion Project, 4.6-6.25%, due 12/01/2016 | \$17,454,950 | \$5,544,521 | | \$960,952 | \$4,583,569 | \$899,195 |
| Accreted interest on 1991 Certificates | | 13,156,240 | \$1,131,988 | 2,354,048 | 11,934,180 | 2,410,805 |
| 1997 State Revolving Fund Loan | | | | | | |
| 1.80%, due 12/31/2016 | 3,611,046 | 1,412,922 | | 191,186 | 1,221,736 | 194,636 |
| 2010 State Revolving Fund Loan | | | | | | |
| .077%, due 8/30/2030 | 6,405,136 | 5,186,474 | 1,171,951 | | 6,358,425 | 315,602 |
| 2011 Installment Note | | | | | | |
| 4.9%, due 6/24/2031 | 2,344,210 | | <u>2,344,210</u> | | <u>2,344,210</u> | <u>131,465</u> |
| Total Long-Term Debt | | 25,300,157 | <u>\$4,648,149</u> | <u>\$3,506,186</u> | 26,442,120 | <u>\$3,951,703</u> |
| Less: | | | | | | |
| Amount due within one year | | <u>(3,506,189)</u> | | | <u>(3,951,703)</u> | |
| Total Long-Term Debt, net | | | <u>\$21,793,968</u> | | <u>\$22,490,417</u> | |

B. 1991 Subordinated Certificates of Participation

The District issued Certificates of Participation on November 1, 1991, to finance the acquisition and construction of public improvements of the wastewater and sewage systems. The bonds are payable from revenues of the District. The principal and interest for the 1991 Certificates of Participation start maturing on December 1, 2010 and every year thereafter through fiscal year 2017.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 – LONG-TERM DEBT (Continued)

C. 1997 State Revolving Fund (SRF) Loan

The District entered into a loan contract with the State of California (State Water Resources Control Board) on March 5, 1997, for the purpose of financing the Pittsburg Conveyance System Improvement Project. The loan amount totals \$3,611,046 with a stated interest rate of 1.80% per annum. Principal payments are due annually beginning in 1999 through the fiscal year 2017, and are payable from revenues of the District.

D. 2010 State Revolving Fund (SRF) Loan

The District entered into a loan contract with the State of California (State Water Resources Control Board) on July 8, 2009, for the purpose of financing the Antioch/Delta Diablo Sanitation District Recycled Water Project. The loan amount totals \$6,405,136 with a stated interest rate of .077% per annum. During fiscal years ended June 30, 2011 and 2010, the District drew down \$1,171,951 and \$5,186,474, respectively, for a total of \$6,358,425 of the available funds. Principal payments will be due annually beginning on December 31, 2011 through the fiscal year 2031. The principal and interest payments will be payable from revenue the District receives from the City of Antioch.

E. 2011 Installment Sale Agreement

On June 9, 2011, the District entered into an installment sale agreement (agreement) with Municipal Finance Corporation, which was subsequently assigned to City National Bank on June 22, 2011, for the purpose of financing a solar energy project. The agreement amount totals \$2,344,210 with a stated interest of 4.9% per annum, and is payable from revenues of the District. Principal and interest payments are due semi-annually on December 24 and June 24, commencing December 24, 2011 and maturing on June 24, 2031.

F. Debt Service Requirements

Annual debt service requirements are shown below for all long-term debt:

| For The Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|---------------------|--------------------|---------------------|
| 2012 | \$3,951,703 | \$140,199 | \$4,091,902 |
| 2013 | 3,672,929 | 421,129 | 4,094,058 |
| 2014 | 3,492,851 | 603,435 | 4,096,286 |
| 2015 | 3,331,538 | 772,050 | 4,103,588 |
| 2016 | 3,174,177 | 926,787 | 4,100,964 |
| 2017 - 2021 | 4,357,223 | 1,454,456 | 5,811,679 |
| 2022 - 2026 | 2,103,092 | 269,054 | 2,372,146 |
| 2027 - 2031 | 2,358,607 | 111,810 | 2,470,417 |
| Total payments due | <u>\$26,442,120</u> | <u>\$4,698,920</u> | <u>\$31,141,040</u> |

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 8 – RETIREMENT PLAN

A. Pension Plan

All District employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District’s employees participate in the Miscellaneous (non-safety) Employee Plans. Benefit provisions under both Plans are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts. The Plans’ provisions and benefits in effect at June 30, 2011, are summarized as follows:

| | |
|---|----------------------|
| | <u>Miscellaneous</u> |
| Benefit vesting schedule | 5 years service |
| Benefit payments | Monthly for life |
| Retirement Age | 50 |
| Monthly benefits, as a % of annual salary | 2.0%-2.7% |
| Required employee contribution rates | 8.0% |
| Required employer contribution rates | 22.96% |

The District’s labor contracts required it to pay 7% of the employee contributions as well as its own from July 1, 2010 through December 31, 2010, and the full 8% commencing January 1, 2011.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District’s total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee’s projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The District does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan’s assets. An investment rate of return of 7.75% is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 8 – RETIREMENT PLAN (Continued)

As required by State law, effective July 1, 2005, the District's Miscellaneous Plan was terminated, and the employees in the plan were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the District true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The District satisfied its Miscellaneous Plan's unfunded liability of \$6,512,365 by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 11 years as of June 30, 2005.

The required contributions and related rates for the year ended June 30 were as follows:

| Annual Pension Cost (APC) | Contribution Amount | Percent APC Contributed | Contribution Rate |
|---------------------------------|------------------------|----------------------------|----------------------|
| 2011 | \$1,709,454 | 100% | 22.96% |
| 2010 | 1,788,421 | 100% | 24.54% |
| 2009 | 1,693,936 | 100% | 24.43% |

CALPERS' latest available actuarial value (which differs from market value) and funding progress are set forth below at their actuarial valuation of June 30, 2009.

Miscellaneous Plan - State Pool:

| Actuarial | | | | | | |
|-------------------|-----------------------------------|--------------------|---------------------------------------|-----------------|------------------------------|--|
| Valuation Date | Entry Age Accrued Liability | Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
| 2009 | \$2,140,438,884 | \$1,674,260,302 | \$466,178,582 | 78.22% | \$440,071,499 | 105.93% |
| 2008 | 1,823,366,479 | 1,529,548,799 | 293,817,680 | 83.89% | 414,589,514 | 70.87% |
| 2007 | 1,627,025,950 | 1,362,059,317 | 264,966,633 | 83.71% | 376,292,121 | 70.42% |

Audited annual financial statements are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Actuarially required contributions were \$1,709,454, \$1,788,421 and \$1,693,936 for fiscal years 2011, 2010 and 2009 respectively. The District made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

The District has implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior year's financial statements. Required disclosures are presented below.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

A. Plan Description and Funding Policy

The District provides postretirement health care benefits to eligible retirees in accordance with Memorandums of Understanding (M.O.U.s) with employee groups. In accordance with the M.O.U.s, the District contracts with CalPERS to provide post-retirement health benefits through the CalPERS PEMHCA program, which provides for vesting at age 50 with five (5) years of service. The District implemented the California State Vesting Program for Retiree Health Care as regulated by Government Code 22893 by resolution (8/2008).

All District employees hired after the implementation date (01/01/2009), will be enrolled in the State's Vesting Program, which starts fifty (50%) medical benefit at age 50 with 10 years of service, increasing by 5% for each additional year of service to 100% with 20 years of service. The District contribution for eligible retirees (and spouses) is continued at the rate in effect each year. The cost of the benefits provided by the plan is currently being pre-funded in an irrevocable trust by the District. The District's plans to fund the benefits provided under the plan over a 30-year horizon, with minimal impacts to District rate payers. Upon adoption of the annual fiscal year operating budget, the District will transfer all funds budgeted for retiree medical premiums to its OPEB Trust Fund. Additional annual funding of the annual required contributions (ARC) will be set by the District Board from all or part of the following sources, in the order listed below:

1. Unanticipated revenue streams (either one-time or on-going)
2. Sewer Service Charge revenues exceed planned levels for the prior fiscal year
3. Unused wastewater operating contingency funds from the prior fiscal year
4. Wastewater operating budget savings from the prior fiscal year
5. Ad valorem tax revenues
6. The wastewater general fund

On July 14, 2011, the Board adopted the District's Retiree Health Funding Plan which outlines that employees will begin contributing 1% of their salaries to the OPEB trust in July 2011; that these contributions will increase to 2% of salaries in July 2011 and to 3% of salaries in July 2012. It also covers all of the other key elements of the Principles of Agreement such as 1) employee contributions are made on a pre-tax basis and are included in employee compensation for CalPERS retirement purposes; 2) the District at least match the annual employee contributions; 3) the District make a good faith effort to fully fund the remaining ARC each year; and 4) that in recognition of the employees' initiative in assisting in funding the OPEB obligation, the terms of the bargaining units' MOU with the District be extended by three years to June 30, 2018.

At June 30, 2011, 30 retirees were receiving benefits.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

B. Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.0% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health care cost trend rates from 5.0% to 10.0% for medical benefits. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and 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 revision at least tri-ennially as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 28 year amortization period on a closed basis.

Funding Progress and Funded Status

The District's Net OPEB Obligation (NOO) is recorded in the Statement of Net Assets and is calculated as follows:

| | | |
|--|-------------|-----------|
| Net OPEB obligation (asset) at June 30, 2009 | | \$874,893 |
| Annual required contribution (ARC) and Annual OPEB cost - fiscal 2009/2010 | 859,000 | |
| Less contributions made during fiscal year: | | |
| Contributions made to PARS irrevocable trust | (767,307) | |
| District's portion of current year premiums paid | (198,096) | |
| (Decrease) in net OPEB obligation | | (106,403) |
| Net OPEB obligation at June 30, 2010 | | 768,490 |
| Annual required contributions (ARC) | 1,032,000 | |
| Interest on Net OPEB Obligation | 54,000 | |
| Adjustments to ARC | (46,000) | |
| Annual OPEB cost - fiscal 2010/2011 | | 1,040,000 |
| Less contributions made during fiscal year: | | |
| Contributions made to PARS irrevocable trust | (1,257,571) | |
| District's portion of current year premiums paid | (34,556) | |
| (Decrease) in net OPEB obligation | | (252,127) |
| Net OPEB obligation at June 30, 2011 | | \$516,363 |

The actuarial accrued liability (AAL) representing the present value of future benefits as of June 30, 2011 amounted to \$7,949,000 per the actuarial study dated April 22, 2011.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, is set forth below:

| Fiscal Year | Annual OPEB Cost (AOC) | Actual Contribution | Percentage of AOC Contributed | Net OPEB Obligation (Asset) |
|---------------|---------------------------|------------------------|-------------------------------------|-----------------------------------|
| June 30, 2011 | \$1,040,000 | \$1,292,127 | 124% | \$516,363 |
| June 30, 2010 | 859,000 | 106,403 | 12% | 768,490 |
| June 30, 2009 | 1,059,000 | 184,107 | 17% | 874,893 |

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the last three actuarial studies are presented below:

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Entry Age Actuarial Accrued Liability (B) | Unfunded (Overfunded) Actuarial Accrued Liability (A – B) | Funded Ratio (A/B) | Covered Payroll (C) | Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C] |
|--------------------------------|--|---|--|--------------------------|---------------------------|--|
| 6/30/2010 | \$2,163,000 | \$7,949,000 | \$5,786,000 | 27.21% | \$7,602,000 | 76.11% |
| 3/2/2010 | 770,000 | 6,817,000 | 6,047,000 | 11.30% | 7,109,000 | 85.06% |
| 6/30/2008 | 0 | 8,844,000 | 8,844,000 | 0% | 6,668,000 | 132.63% |

NOTE 10 – 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 joined together with other entities to form the California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program for 60 member entities. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The District pays an annual premium to CSRMA for its general liability, property damage, workers compensation insurance and automobile coverage.

CSRMA is governed by a Board composed of one representative from each member agency. The Board controls the operations of CSRMA including selection of management and approval of operating budgets, independent of any influence by member entities.

CSRMA is not a component unit of the District and the District's share of assets, liabilities, and equity has not been calculated.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 10 – RISK MANAGEMENT (Continued)

The following is a summary of the insurance policies in force carried by the Authority as of June 30, 2011:

| Type of Coverage | Limits | Deductibles |
|--|-----------------|-------------|
| General Liability | \$15,500,000 | \$100,000 |
| Excess General Liability | 25,500,000 | 15,600,000 |
| Employment Practices Liability | 15,500,000 | 25,000 |
| Worker's Compensation | 500,000 | None |
| Excess Worker's Compensation Liability | Statutory Limit | 750,000 |
| Special Form Property | 127,113,142 | 25,000 |
| Public Entity Physical Damage | 880,671 | 1,000/2,000 |
| Commercial Crime - Employee Dishonesty, Forgery or Alteration | 1,000,000 | 10,000 |
| Commercial Crime - Theft, Disappearance, Destruction, or Computer Fraud | 500,000 | 10,000 |
| Fiduciary Liability | 1,000,000 | 1,000 |
| Differences in Conditions - Earthquake/Flood | 5,000,000 | 50,000 |

The District also maintains employee fidelity bonds to protect against the risk of employee theft or defalcation. Settled claims for CSRMA or employee fidelity bonds have not exceeded coverage in any of the past three fiscal years. Audited financial statements of CSRMA may be obtained at 500 Washington Street, Suite 300, San Francisco, CA 94111-2933.

NOTE 11 – NET ASSETS

Net Assets is the excess of all the District's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the District-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter.

Unrestricted describes the portion of Net Assets which is not restricted to use.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. *Lease Revenue*

Delta Energy Center, LLC (DEC) and Calpine Corporation entered into an operating lease with the District, effective December 11, 2002, to lease real property located at 2600 Pittsburg-Antioch Highway, in Pittsburg, for a cooling tower site. The base rent for the leased land started at \$32,500 per year and is set to escalate every five years based on changes in the Consumer Price Index. The current rate is \$35,773 per year. The area leased is 260 feet by 50 feet, on land that is not targeted for District improvements. The agreement terminates May 31, 2050. Minimum future rentals total \$1,395,147 at June 30, 2011. The lessee, DEC, retains an option to terminate the lease agreement by providing a thirty-day written notice to the District. The total remaining minimum future rental payments are as follows:

| <u>For the Year Ending June 30</u> | <u>Minimum Future</u> |
|--|---------------------------|
| 2012 | \$35,773 |
| 2013 | 35,773 |
| 2014 | 35,773 |
| 2015 | 35,773 |
| 2016 | 35,773 |
| 2017 - 2021 | 178,865 |
| 2022 - 2026 | 178,865 |
| 2027 - 2031 | 178,865 |
| 2032 - 2036 | 178,865 |
| 2037 - 2041 | 178,865 |
| 2042 - 2046 | 178,865 |
| 2047 - 2050 | 143,092 |

B. *Joint Power Agreement with City of Pittsburg*

Delta Diablo Sanitation District and the City of Pittsburg (City) entered into a Joint Powers Agreement on September 24, 1999, for the purpose of development and operation of a “Recycled Water Program” (the Project). Under the provisions of the agreement, the Project is to be jointly funded by the District and the City. The City will be responsible for the design and construction of the Project, and the District will own and operate the system once construction is complete. The Project has been completed and its estimated cost is \$7,105,239.

The funding sources for the Project include approximately \$3,095,989 costs from the City of Pittsburg Redevelopment Agency. The District has secured for its share of the project costs funding as follows: \$1,259,250 Prop 50, Chapter 7, WRF grant award from a State Water Resources Control Board (SWRCB), \$1,000,000 Prop 50, Chapter 8, IRWMP sub-grant award from the SWRCB through Contra Costa Water District and a \$1,650,000 grant (net) from the U.S. Department of Interior, Bureau of Reclamation. When the Federal appropriations are received it is expected to be repaid to wastewater ad valorem taxes, which originally provided the advance funding for this project. As of June 30, 2011, the District has remitted \$3,909,248 to the City of Pittsburg for Project costs.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 12 – COMMITMENTS AND CONTINGENCIES (Continued)

C. *Joint Power Agreement with City of Antioch*

Delta Diablo Sanitation District and the City of Antioch (City) entered into a Joint Powers Agreement on November 18, 2003, for the purpose of development and operation of a “Recycled Water Program” (the Project). Under the provisions of the agreement, the Project is to be jointly funded (50/50) by the District and the City. The District is authorized to design, construct, own, operate and regulate the facilities.

The Project is estimated to cost \$12,800,000, with each agency’s share estimated at \$6,400,000. The District plans to fund its share of the Project costs through the following funding sources: \$605,077 State Revolving Fund Loan (SRF), \$2,563,697 Prop 50, Chapter 7, WRFPP grant award from a State Water Resources Control Board (SWRCB), \$565,618 Prop 50, Chapter 8, IRWMP sub-grant award from the SWRCB through Contra Costa Water District, two grants totaling \$2,131,000 from the U.S. Department of Interior, Bureau of Reclamation and approximately \$534,608 District funding from wastewater ad valorem taxes. The wastewater ad valorem taxes are to be repaid if Federal and or State Appropriations applied for are received. To date, a total of \$6,405,136 SRF loan with .077% interest has been secured by the District for this project. The City of Antioch will fund its share of the project costs primarily from the SRF loan. The City will reimburse the District for about 90% of the SRF loan payments. As of June 30, 2011, the District has incurred expenditures of \$12,724,567.

D. *Purchase Commitments*

The District has a number of purchase commitments for ongoing operating and capital projects that involves multi-year contracts. Purchase commitments related to these multi-year contracts are approximately \$12,932,360 and \$8,534,275 as of June 30, 2011 and June 30, 2010, respectively.

SUPPLEMENTARY INFORMATION

DELTA DIABLO SANITATION DISTRICT
 SUPPLEMENTARY SCHEDULE OF NET ASSETS - PROPRIETARY FUND TYPE
 ENTERPRISE FUNDS
 JUNE 30, 2011

| | Waste Water ^(A) | Waste Water Expansion ^(B) | Recycled Water Facility | Hazardous Waste |
|---|-------------------------------|---|----------------------------|--------------------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash | \$597,981 | \$421,012 | \$8,517 | \$245,171 |
| Investments | 27,255,846 | 91,505 | 1,562,390 | |
| Accounts receivable | 483,278 | 19,029 | 723,672 | 204,849 |
| Interfund receivable | 5,671,000 | | 1,481,000 | |
| Interest receivable | 18,090 | 560 | 2,970 | |
| Current portion of notes receivable | | 2,264 | 5,753,348 | 117,547 |
| Current portion of employee computer loans receivable | 19,504 | | | |
| Inventory | 727,093 | | 85,837 | |
| Prepaid expenses | 267,783 | | 7,212 | |
| Total current assets | <u>35,040,575</u> | <u>534,370</u> | <u>9,624,946</u> | <u>567,567</u> |
| NON-CURRENT ASSETS: | | | | |
| RESTRICTED CASH AND INVESTMENTS | | | | |
| Escrow | 29,745 | | 230,195 | |
| Debt service | | 1,766,556 | | |
| Total restricted cash and investments | <u>29,745</u> | <u>1,766,556</u> | <u>230,195</u> | |
| DESIGNATED CASH AND INVESTMENTS | | | | |
| Operations and maintenance rate stabilization | 600,000 | | | |
| Related Employee Benefits Costs | 753,206 | | | |
| Insurance | 500,000 | | | |
| Total designated cash and investments | <u>1,853,206</u> | | | |
| CAPITAL ASSETS: | | | | |
| Capital assets, non depreciable | 6,223,689 | 185,585 | 12,929,886 | |
| Capital assets, net of accumulated depreciation | 95,385,371 | | 23,230,494 | 791,226 |
| Total capital assets, net | <u>101,609,060</u> | <u>185,585</u> | <u>36,160,380</u> | <u>791,226</u> |
| OTHER ASSETS | | | | |
| Notes receivable less current portion | | 4,828 | | 72,043 |
| Employee notes receivable less current portion | 5,799 | | | |
| Total other assets | <u>5,799</u> | <u>4,828</u> | | <u>72,043</u> |
| Total Noncurrent Assets | <u>103,497,810</u> | <u>1,956,969</u> | <u>36,390,575</u> | <u>863,269</u> |
| TOTAL ASSETS | <u>138,538,385</u> | <u>2,491,339</u> | <u>46,015,521</u> | <u>1,430,836</u> |
| LIABILITIES | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | 1,169,539 | 12,515 | 125,695 | 255,907 |
| Accrued payroll and benefits | 978,763 | 196 | 7,240 | 1,852 |
| Interfund payable | 3,288,000 | 4,400,000 | 550,000 | |
| Deposits payable | 94,169 | | 232,212 | |
| Deferred revenue | 670,053 | | | 189,591 |
| Compensated absences - due within one year | 595,155 | | | |
| Current portion of long-term debt | 131,465 | 3,504,636 | 315,602 | |
| Property tax refund - due within one year | 20,673 | | | |
| Accrued interest payable | | 11,014 | | |
| Total current liabilities | <u>6,947,817</u> | <u>7,928,361</u> | <u>1,230,749</u> | <u>447,350</u> |
| NON-CURRENT LIABILITIES: | | | | |
| Long-term debt, net of current portion: | | | | |
| Certificates of participation | | 3,684,374 | | |
| Loans payable | | 1,027,100 | 6,042,823 | |
| Installment sale agreement | 2,212,745 | | | |
| Accreted Interest | | 9,523,375 | | |
| Compensated absences - due in more than one year | 185,168 | | | |
| Property tax refund, net of current portion | 31,121 | | | |
| Net OPEB obligation | 516,363 | | | |
| Total long-term liabilities | <u>2,945,397</u> | <u>14,234,849</u> | <u>6,042,823</u> | |
| TOTAL LIABILITIES | <u>9,893,214</u> | <u>22,163,210</u> | <u>7,273,572</u> | <u>447,350</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 99,264,850 | (17,553,900) | 29,801,955 | 791,226 |
| Restricted for debt service | | 1,766,556 | | |
| Restricted for capital projects | 29,745 | | | |
| Unrestricted | 29,350,576 | (3,884,527) | 8,939,994 | 192,260 |
| TOTAL NET ASSETS (DEFICITS) | <u>\$128,645,171</u> | <u>(\$19,671,871)</u> | <u>\$38,741,949</u> | <u>\$983,486</u> |

^(A) Wastewater is funded by user charges and is comprised of operations & maintenance, capital assets, and capital asset replacement for wastewater treatment and operations.

^(B) Wastewater Expansion is funded by developers for connection fees.

^(C) Street Sweeping is funded by user charges; prior years activities were reported as part of Wastewater.

^(D) Bay Point is funded by user charges; prior years activities were reported as part of Wastewater.

| Street Sweeping ^(C) | Bay Point ^(D) | Total |
|--------------------------------|--------------------------|----------------------|
| \$8,465 | \$187,491 | \$1,468,637 |
| 101,240 | 1,789,125 | 30,800,106 |
| | 4,436 | 1,435,264 |
| 596,000 | 490,000 | 8,238,000 |
| 667 | 2,610 | 24,897 |
| | | 5,873,159 |
| | | 19,504 |
| | | 812,930 |
| | | 274,995 |
| <u>706,372</u> | <u>2,473,662</u> | <u>48,947,492</u> |
| | | 259,940 |
| | | 1,766,556 |
| | | <u>2,026,496</u> |
| | | 600,000 |
| | | 753,206 |
| | | 500,000 |
| | | <u>1,853,206</u> |
| | | 19,339,160 |
| | <u>2,319,776</u> | <u>121,726,867</u> |
| | <u>2,319,776</u> | <u>141,066,027</u> |
| | | 76,871 |
| | | 5,799 |
| | | <u>82,670</u> |
| | <u>2,319,776</u> | <u>145,028,399</u> |
| <u>706,372</u> | <u>4,793,438</u> | <u>193,975,891</u> |
| 62,647 | 2,878 | 1,629,181 |
| | 3,228 | 991,279 |
| | | 8,238,000 |
| | | 326,381 |
| | | 859,644 |
| | | 595,155 |
| | | 3,951,703 |
| | | 20,673 |
| | | 11,014 |
| <u>62,647</u> | <u>6,106</u> | <u>16,623,030</u> |
| | | 3,684,374 |
| | | 7,069,923 |
| | | 2,212,745 |
| | | 9,523,375 |
| | | 185,168 |
| | | 31,121 |
| | | 516,363 |
| | | <u>23,223,069</u> |
| <u>62,647</u> | <u>6,106</u> | <u>39,846,099</u> |
| | 2,319,776 | 114,623,907 |
| | | 1,766,556 |
| | | 29,745 |
| <u>643,725</u> | <u>2,467,556</u> | <u>37,709,584</u> |
| <u>\$643,725</u> | <u>\$4,787,332</u> | <u>\$154,129,792</u> |

DELTA DIABLO SANITATION DISTRICT
 SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUND TYPE
 ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDING JUNE 30, 2011

| | Waste Water ^(A) | Waste Water Expansion ^(B) | Recycled Water Facility | Household Hazardous Waste |
|---|-------------------------------|---|----------------------------|---------------------------------|
| OPERATING REVENUES | | | | |
| Service charges | \$17,602,234 | | \$2,655,480 | |
| Discharge permits | 191,200 | | | |
| Household hazardous waste operating fees | | | | \$464,830 |
| Miscellaneous | 348,905 | \$2,263 | | |
| Work for others | 591,350 | | 1,420,296 | 10,631 |
| Total operating revenues | 18,733,689 | 2,263 | 4,075,776 | 475,461 |
| OPERATING EXPENSES | | | | |
| Salaries and benefits | 12,171,931 | 1 | 490,924 | 148,103 |
| Chemicals | 654,748 | | 489,912 | |
| Depreciation | 5,292,182 | | 586,544 | 18,388 |
| Office expense | 680,415 | 1 | 24,092 | 16,245 |
| Operating expense | 536,213 | | 73,881 | 16,558 |
| Outside services and maintenance | 2,189,333 | 55,286 | 175,069 | 456,936 |
| Travel and meetings | 83,998 | | 3,862 | 80 |
| Utilities | 1,069,413 | | 371,464 | 540 |
| Other | 72,381 | | | |
| Total operating expenses | 22,750,614 | 55,288 | 2,215,748 | 656,850 |
| OPERATING INCOME (LOSS) | (4,016,925) | (53,025) | 1,860,028 | (181,389) |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest expense | | (1,172,891) | (1,690) | |
| Interest income | 212,518 | 27,091 | 11,509 | 13,771 |
| Capital facilities capacity charges | | 2,160,678 | | |
| Lease revenue | 35,773 | | | |
| State grants | | | 389,697 | |
| Federal grants | | | 1,478,384 | |
| Subgrants | | | 288,023 | |
| Property taxes | 1,594,515 | 67,921 | | |
| Total nonoperating revenues | 1,842,806 | 1,082,799 | 2,165,923 | 13,771 |
| NET INCOME (LOSS) BEFORE TRANSFERS | (2,174,119) | 1,029,774 | 4,025,951 | (167,618) |
| Transfers In | 8,024,433 | 761,820 | 73,994 | 156,352 |
| Transfers (Out) | (6,521,243) | (1,299,853) | (1,195,503) | |
| Total transfers in (out) | 1,503,190 | (538,033) | (1,121,509) | 156,352 |
| NET INCOME (LOSS) AFTER TRANSFERS | (670,929) | 491,741 | 2,904,442 | (11,266) |
| NET ASSETS (DEFICITS), BEGINNING OF YEAR | 129,316,100 | (20,163,612) | 35,837,507 | 994,752 |
| NET ASSETS (DEFICITS), END OF YEAR | \$128,645,171 | (\$19,671,871) | \$38,741,949 | \$983,486 |

^(A) Wastewater is funded by user charges and is comprised of operations & maintenance, capital assets, and capital asset replacement for wastewater treatment and operations.

^(B) Wastewater Expansion is funded by developers for connection fees.

^(C) Street Sweeping is funded by user charges; prior years activities were reported as part of Wastewater.

^(D) Bay Point is funded by user charges; prior years activities were reported as part of Wastewater.

| Street Sweeping ^(C) | Bay Point ^(D) | Total |
|--------------------------------|--------------------------|----------------------|
| \$595,484 | \$796,827 | \$21,650,025 |
| | | 191,200 |
| | | 464,830 |
| | | 351,168 |
| | | 2,022,277 |
| <u>595,484</u> | <u>796,827</u> | <u>24,679,500</u> |
| 7,841 | 270,646 | 13,089,446 |
| | | 1,144,660 |
| | 93,327 | 5,990,441 |
| 10,444 | 6,650 | 737,847 |
| 43 | 7,140 | 633,835 |
| 475,830 | 15,590 | 3,368,044 |
| | 574 | 88,514 |
| | | 1,441,417 |
| | 53,684 | 126,065 |
| <u>494,158</u> | <u>447,611</u> | <u>26,620,269</u> |
| <u>101,326</u> | <u>349,216</u> | <u>(1,940,769)</u> |
| | | (1,174,581) |
| 2,012 | 8,752 | 275,653 |
| | | 2,160,678 |
| | | 35,773 |
| | | 389,697 |
| | | 1,478,384 |
| | | 288,023 |
| | | 1,662,436 |
| <u>2,012</u> | <u>8,752</u> | <u>5,116,063</u> |
| <u>103,338</u> | <u>357,968</u> | <u>3,175,294</u> |
| | | 9,016,599 |
| | | (9,016,599) |
| <u>103,338</u> | <u>357,968</u> | <u>3,175,294</u> |
| <u>540,387</u> | <u>4,429,364</u> | <u>150,954,498</u> |
| <u>\$643,725</u> | <u>\$4,787,332</u> | <u>\$154,129,792</u> |

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