

**DELTA DIABLO  
(FORMERLY KNOWN AS  
DELTA DIABLO SANITATION DISTRICT)**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**PREPARED BY THE  
FINANCE DEPARTMENT**

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**DELTA DIABLO**  
**BASIC FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2014 and 2013**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Delta Diablo  
Antioch, California

We have audited the accompanying financial statements of the business-type activities of the Delta Diablo (District) as of and for the years ended June 30, 2014 and June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of each major fund of the Delta Diablo as of June 30, 2014 and 2013, and the respective changes in the financial positions and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The Supplementary Information as listed in the Table of Contents is presented for purposes of additional analysis and is not required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Maze + Associates*

Pleasant Hill, California  
November 15, 2014

DELTA DIABLO  
MANAGEMENT'S DISCUSSION & ANALYSIS  
For the Fiscal Year Ended June 30, 2014 and 2013

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, 2014.

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's (District) basic financial statements. The District-wide financial statements are shown on pages 14-41. 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 Net Position*, *Statement of Revenues and Expenses and Changes in Net Position* and *Statement of Cash Flows*.

The *Statement of Net Position* presents information on all of the District's assets *plus* deferred outflows of resources *minus* liabilities *plus* deferred inflows of resources, the net difference reported as *Net Position*. Over time, increases or decreases in net position 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 Position* 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.

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MANAGEMENT'S DISCUSSION & ANALYSIS  
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**FINANCIAL HIGHLIGHTS**

- The District's combined net position totaled \$159.2 million.
- During the fiscal year, total net position increased by \$4.8 million or 3%.
- Total assets increased by \$1.5 million or 1%
- Total liabilities decreased by \$3.3 million or 12%
- Total revenues were \$31.2 million, an increase of \$0.8 million or 3%.
- Total expenses were \$30.1 million, a decrease of \$3.3 million or 10%.
- Capital contributions were \$3.7 million, an increase of \$0.9 million or 33%

**FINANCIAL ANALYSIS**

**Statement of Net Position.** As noted earlier, the changes in net position serve as a useful indicator of Delta Diablo Sanitation District's financial position over time. The District's remains financially sound with combined total net position as of June 30, 2014 at \$159.2 million. For the current fiscal year, the District's net position has increased by \$4.8 million. The last two fiscal years prior, the District's net position has decreased by \$0.3 million or less than 1%, and increased by \$0.5 million or 3%, respectively.

The current fiscal year's increase is a net result of capital contributions (\$3.7 million) plus income before contributions (\$1.1 million). This will be further discussed in the Statement of Revenue, Expenses, and Changes in Net Position section of this analysis. Overall, the District's total assets plus deferred outflow exceeded total liabilities plus deferred inflows by \$159.2 million. This positive result is indicative of the District's strong financial position. The largest portion of Delta Diablo Sanitation District's net position (79%) is net investment 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 by \$2.2 million primarily due to lesser investments made in total capital assets compared to the prior fiscal year. An additional portion of the District's net position (1.0%) represents resources that are subject to external restrictions as to how these resources may be used such as for debt service and for capital projects. The restricted net position remained steady at \$2.1 million for this fiscal year compared to the prior fiscal year. The remaining balance of the District's net position (20%) represents the unrestricted portion of the net position. Unrestricted net position increased by \$7.0 million for the current year for a total of \$31.2 million. The increase in unrestricted net position is primarily correlated to the corresponding decrease in the net investment in capital assets and positive operating results. Unrestricted net position is a direct result of the District's cumulative operating and non-operating activities, thereby providing additional resources available for the District's use in future periods.

**Assets Plus Deferred Outflows and Liabilities Plus Deferred Inflows.** Total assets increased by \$1.5 million or 1%, and total liabilities decreased by \$3.3 million or 12%; resulting in a net increase of total net position for the current fiscal year by \$4.8 million compared to last fiscal year. The District does not have any deferred outflows and inflows balances as of June 30, 2014.

*Assets.* For fiscal year end (FYE) 2014, current and other assets increased by \$5.3 million (14%) from the prior fiscal year primarily due to increases in cash, unrestricted and designated investments, materials and supplies, prepaid expenses, and net Other Post Employment Benefit (OPEB) assets, partially offset by decreases in accounts receivable, notes receivable, and employee computer loan receivable. The Board approved a \$3.9 million lump-sum payment of the District's CalPERS side-fund last fiscal year, which did not occur this fiscal year thereby increasing available cash (22%) and unrestricted investments (15%) this fiscal year. The net increase in the designated investments is primarily due to additional funds set aside by the District Board for the advanced treatment process project in anticipation of more stringent future regulatory requirements offset by the decrease in funds set aside for related employee benefit costs. The decrease in designated funds for related employee benefit costs is due to the required annual payment transfers to Contra Costa County Employees Retirement Association (CCCERA) in accordance with the termination agreement to pay for the District's unfunded obligation (see note 2I for additional information). Net OPEB assets increased due to additional contributions made to the OPEB trust fund from the prior fiscal year's unspent contingency and operational savings as directed by the District Board as well as employee and required District contributions for the year. Decreases in accounts receivable are primarily



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For the Fiscal Year Ended June 30, 2014 and 2013

due to timing of when invoices are billed and paid by the District's customers in the current fiscal year compared to the prior fiscal year. The decrease in notes receivable is largely due to scheduled principal and interest payments made by the Cities of Antioch and Pittsburg for their share of their respective recycled water distribution systems' project costs. Capital assets (net) decreased by 3% compared to prior year due to higher depreciation and retirements, partially offset by the additional capital expenditures in the current year. Capital assets (net) will be discussed further in the capital assets section of this analysis.

*Liabilities.* The net decrease in total liabilities of \$3.3 million was attributable to a \$3.5 million decrease in long-term debt (net), partially offset by a slight increase in current and other liabilities of \$0.2 million. The decrease in net long-term debt (17%) was due 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. For current and other liabilities, the net increase (3%) is largely due to increases in accounts payable and deposits payable offset by decreases in accrued payroll and benefits, and unearned revenue. Increases in accounts payable (56%) and deposits payable (266%) compared to the prior year correlates with the increase investments in capital assets this fiscal year. The decrease in unearned revenue (40%) is primarily for project reimbursements received in advance from partner agencies in the prior year that were earned this fiscal year. Reduced accrued payroll and benefits was primarily due to the annual payment transfers to CCCERA as discussed in the previous paragraph.

The following tables are shown in comparative format for fiscal year ended June 30, 2014, 2013 and 2012 with variances shown as percentages for analysis.

*Condensed Statement of Net Position*

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Current and other assets	\$43,789,242	\$38,486,543	\$40,508,133	14%	(5)%
Capital assets ( <i>net</i> )	140,755,638	144,586,963	146,216,647	(3)%	(1)%
Total assets	<u>\$184,544,880</u>	<u>\$183,073,506</u>	<u>\$186,724,780</u>	1%	(2)%
Current and other liabilities	\$7,736,462	\$7,521,700	\$8,881,464	3%	(15)%
Long-term debt ( <i>net</i> )	17,651,126	21,182,111	23,198,604	(17)%	(9)%
Total liabilities	<u>\$25,387,588</u>	<u>\$28,703,811</u>	<u>\$32,080,068</u>	(12)%	(11)%
Net position					
Net investment in capital assets	\$125,917,417	\$128,104,632	\$129,564,959	(2)%	(1)%
Restricted	2,088,848	2,088,821	2,307,508	0%	(9)%
Unrestricted	31,151,027	24,176,242	22,772,245	29%	6%
Total net position	<u><u>\$159,157,292</u></u>	<u><u>\$154,369,695</u></u>	<u><u>\$154,644,712</u></u>	3%	(0)%

**Statement of Revenue and Expenses and Changes in Net Position.** 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 the current fiscal year, FYE 2014, the District's revenues exceeded its expenses by \$4.8 million. In FYE 2013, the District's expenses exceeded its revenue by \$0.3 million and conversely in the prior year FYE 2012, the District revenues exceeded its expenses by \$0.5 million.

This fiscal year's positive result was primarily due to a combination of decreased salaries and benefits costs, plus increased service charges and total capital contributions this year compared to the prior year.

Last fiscal year, salaries and benefit costs increased due to a decision by the District's Board of Directors to pay off its CalPERS side-fund liability with a one-time, lump-sum payment of \$3.9 million. The use of low earning reserves to pay for the higher interest debt (at 7.5% interest rate) on the CalPERS side fund provided the District's ratepayers the greatest potential savings in the future compared to other alternatives considered. Without the one-time lump-sum payment of this high cost actuarial liability for the current fiscal year, the District

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realized a positive net position outcome consistent with FYE 2012 and prior fiscal years' results. These positive outcomes over time were achieved due to: the District's continued efforts in aggressively securing additional funding through grants and subgrants; maintaining a stable revenue base with moderate rate increases 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 \$31.2 million, an increase of \$0.8 million, or 3.0%, over the prior year results. In FYE 2014, District revenues remained strong and consistent with prior years' results. Total revenue for FYE 2013 and FYE 2012 were \$30.4 million and \$28.1 million, respectively.

Total revenue, excluding capital contributions was a direct result of increases in service charges of \$1.3 million (5%) and slight increase in property taxes of \$0.07 million partially offset with decreases in other operating revenue, interest income and other non-operating revenues.

FYE 2014 service charges remained strong at \$27.2 million, or 5% higher than FYE 2013 at \$25.8 million, which was 9% higher than FYE 2012. The gradual moderate increases in wastewater sewer service rates are consistent with the rate model approved by the District Board each fiscal year and ensures consistent delivery of services with the least possible impact to its rate payers. The current year increase in services charges is primarily due to a total of 6.5% increase in wastewater sewer service charges approved by the Board plus modest growth in services provided. 2.7% of the 6.5% rate increase is in preparation for the new advanced treatment plant that is anticipated to be built due to more stringent regulatory guidelines. A Board designated reserve fund for this project was established beginning in fiscal year 2011/12. Recycled water service charges also increased by 2.2% overall primarily due to higher recycled water consumption by its customers this fiscal year compared to the prior fiscal year. FYE 2014 is the first year the City of Pittsburg has been billed for a monthly recycled water surcharge, reimbursing the District for its additional project costs share related to the Pittsburg recycled water project. When the Pittsburg recycled water distribution system was constructed, an existing City pipeline was reused for a portion of the project. This pipeline was near the end of its useful life and subsequently required rehabilitation that was 75% grant funded and 25% locally funded. The local share is the responsibility of the City, which requested that the District recover those costs over time through a recycled water surcharge. 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 net decrease in other operating revenues (19%) was primarily due to decreases in work for others (38%), discharge permits (10%), and household hazardous waste (HHW) operating fees (4%), partially offset by higher miscellaneous revenue (16%) this year compared to prior fiscal year. Both the work for others and miscellaneous revenue can vary from year-to-year depending on the operating activities related to large multi-agency collaborative and/or multi-year projects as well as when additional non-recurring revenues are collected. Discharge permits were slightly lower this year due to a moderate decrease in the number of major discharge permits issued; HHW operating fees decreased due to reduced reimbursements from partner agencies this year compared to the prior fiscal year.

Other operating revenue in FYE 2014 was \$2.1 million, compared to \$2.7 million and \$2.6 million for the prior two fiscal years, respectively.

Property taxes and assessments increased slightly by 4% for FYE 2014 at \$1.7 million, compared with the two previous years' results of \$1.6 million each year. The increase experienced was primarily due to slight growth in all the three zones the District serves, partially offset by reduced redevelopment funds received this year. The housing market remained flat compared to the downward trend from the housing bubble experienced in the prior years. Interest income had a slight decrease in the current fiscal year consistent with the low interest rate yields

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from investments. Overall, interest rates are still historically low consistent with the continuing downward trend in the short-term interest rate market and over-all declines in the economy since 2008. Interest income for each of the prior fiscal years FYE 2013 and FYE 2012 was \$0.2 million.

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 increased by \$0.9 million, or 33%. This increase is primarily due to a moderate increase in CFCC/connection fees of \$0.03 million coupled with an increase in other capital contribution/grant revenue of almost \$1.0 million compared to the prior year.

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 \$2.3 million for FYE 2014, less than 1% lower than the prior year largely due to slightly lower residential connections (3%) offset by an increase in the number of commercial connections (21%). This year's total equivalent residential unit (ERU) additions were 477 compared to 484 new ERUs in FYE 2013 and 392 ERUs in FYE 2012. FYE 2013 represents the total highest CFCC connections collected since FYE 2009. For FYE 2013 and FYE 2012, CFCC revenue was \$2.3 million and \$1.7 million, respectively.

Other capital contributions/grant revenue can fluctuate from year-to-year depending on project activities and availability of funds primarily from Federal and State agencies. Despite a challenging year for securing Federal and State grants, for FYE 2014, the District received a total of \$1.4 million of other capital contributions. This includes a State grant for \$0.5 million, plus \$0.9 million from subgrants. There was no Federal grant secured for FYE 2014. Other capital contributions for FYE 2013 and 2012 were \$0.5 million and \$0.2 million, respectively.

*Expenses.* Combined expenses for FYE 2014 totaled \$30.1 million, a decrease of \$3.3 million, or 10%, from prior year. Total expenses for FYE 2013 and FYE 2012 were \$33.4 million and \$29.5 million, respectively. Total expenses decreased primarily due to reduced salaries and benefits primarily due to the one-time CalPERS side fund payment made last fiscal year that did not occur this fiscal year. Additionally, there were moderate increases in all major expense categories and a one-time other non-operating expense of \$0.4 million partially offset by the decrease in interest expense compared to the prior fiscal year.

Salaries and benefits totaled \$13.5 million, a decrease of \$4.1 million or 23% compared to the prior fiscal year. This was primarily due to a combination of the following factors: savings from the one-time \$3.9 million CalPERS side-fund payment made last year and position vacancies, partially offset by moderate increases due to promotions, salary adjustments, merit and cost-of-living adjustments (2.2%), and OPEB contributions. Total salaries and benefits combined for FYE 2013 and FYE 2012 were \$17.6 million and \$13.9 million, respectively.

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 per fiscal year up to a 3% maximum) with the District matching the employee's contribution. The maximum contribution of 3% was reached in FYE 2013. For FYE 2014, employee contribution of 3% towards OPEB costs was consequently matched by the District consistent with the plan. The net OPEB cost increase was due to the FY2013/2014 scheduled District matching contribution. For additional information on OPEB, see accompanying notes to the financial statements No.9 – OPEB. CalPERS employer contribution for Tier I decreased as employer contribution rates went down from 25.6% to 16.0% after the side-fund payment was made in October 2012. Effective July 2014, Tier I employer contribution rates increased to 16.2% of salaries.

**DELTA DIABLO**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**  
For the Fiscal Year Ended June 30, 2014 and 2013

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2014	2013	2012	2014 vs. 2013	2014 vs. 2012
Service charges	\$27,151,658	\$25,824,829	\$23,741,202	5%	9%
Other operating revenues	2,161,304	2,677,605	2,615,692	(19)%	2%
Property Taxes	1,698,185	1,627,706	1,591,167	4%	2%
Interest income	174,179	189,139	151,223	(8)%	25%
Other non-operating revenues	36,125	56,507	41,244	(36)%	37%
Total revenues	<u>\$31,221,451</u>	<u>\$30,375,786</u>	<u>\$28,140,528</u>	3%	8%
Salaries and benefits	\$13,500,132	\$17,593,719	\$13,892,968	(23)%	27%
Chemicals and utilities	2,767,263	2,755,742	2,815,572	0%	(2)%
Depreciation and amortization	6,821,159	6,506,348	6,279,367	5%	4%
Other operating expenses	5,911,463	5,683,360	5,483,266	4%	4%
Interest expense	695,818	868,105	1,025,593	(20)%	(15)%
Other non-operating expenses	415,681	0	0	100%	0%
Total expenses	<u>\$30,111,516</u>	<u>\$33,407,274</u>	<u>\$29,496,766</u>	(10)%	13%
Income (loss) before capital contributions	\$1,109,935	(\$3,031,488)	(\$1,356,238)	(137)%	124%
Add: Capacity charges - connection fees	2,250,790	2,280,985	1,687,667	(1)%	35%
Add: Other capital contributions	1,426,873	475,486	183,491	200%	159%
Changes in net position	<u>\$4,787,598</u>	<u>(\$275,017)</u>	<u>\$514,920</u>	(1,841)%	(153)%
Net position - beginning of year	<u>\$154,369,695</u>	<u>\$154,644,712</u>	<u>\$154,129,792</u>	(0)%	0%
Net position - end of year	<u><u>\$159,157,293</u></u>	<u><u>\$154,369,695</u></u>	<u><u>\$154,644,712</u></u>	3%	(0)%

In FYE 2013, the Public Employees' Pension Reform Act (PEPRA) of 2013 was created with the passing of Assembly Bill 340 (AB 340) signed by the Governor on September 2012. PEPRA implemented reduced benefit formulas, increased retirement age, final compensation period and new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of "new member" under this bill. This bill also created a Tier III pension plan for District employees, as well as some changes that affect current employees. For the most part, savings from PEPRA will financially impact the District in the future, as the majority of the changes apply only to newly-hired employees and none of these changes affect employers' existing unfunded pension liability. Benefits for the current year, includes employer contributions to all three tiers. See accompanying notes to the financial statements No.8 – Retirement Plan for additional information.

Other expense categories that increased for FYE 2014 include depreciation expense, other operating and other non-operating expenses, offset by reduced interest expenses. The majority of these increases are due higher costs incurred this year compared to the prior fiscal year.

Depreciation totaled \$6.8 million, increasing by \$0.3 million, or 5%, due to the additional capital assets that depreciated this fiscal year compared to the prior year. Total depreciation for FYE 2013 and FYE 2012 were \$6.5 million and \$6.3 million, respectively. Other operating expenses totaled \$5.9 million, an increase of \$0.2 million from last year primarily due to higher operating expenses incurred largely due to higher cost of outside services and maintenance this year compared to the prior year. Other operating expenses for FYE 2013 and FYE 2012 were \$5.7 million and \$5.5 million, respectively. The one-time other non-operating expense incurred this fiscal year of \$0.4 million was due to a net loss on fixed asset retirements. Interest expense decreased due to the downward trend in market rates and payment of principal owed on debt.

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Savings in chemical costs offset by higher utilities costs resulted in a nearly zero net increase for chemical and utilities (at \$2.8 million) this year. Lesser chemical costs were primarily due to price decreases for some chemicals and slightly less freight costs. Utilities costs were higher this year due to increased usage. Total chemicals and utilities combined for FYE 2013 and FYE 2012 were consistent with FYE 2014 results at \$2.8 million for each fiscal year.

**CAPITAL ASSETS AND DEBT**

**Capital Assets.** Capital assets (net of depreciation) for FYE 2014, FYE 2013, and FYE 2012 totaled \$140.8 million, \$144.6 million and \$146.2 million, respectively. In the current year, the total decrease in total capital assets (net of depreciation) was 3% or \$3.8 million compared to the prior year. The reduction in total capital assets (net of depreciation) is the result of the decreases in construction in progress, offset by the increases in depreciable capital assets.

*Capital Assets (net of accumulated depreciation)*

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Land	\$2,719,251	\$2,719,251	\$2,719,251	0%	0%
Construction in progress Treatment & collection system (net)	7,056,213	13,402,243	11,075,100	(47)%	21%
Equipment (net)	129,930,580	127,681,595	131,577,039	2%	(3)%
Equipment (net)	1,049,594	783,879	845,256	34%	(7)%
Total capital assets (net)	<u>\$140,755,638</u>	<u>\$144,586,968</u>	<u>\$146,216,647</u>	(3)%	(1)%

Construction in progress had a net decrease of \$6.3 million; this is primarily due to additional capital projects that have been completed and capitalized for the fiscal year. Construction in progress totaled \$7.1 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.

Depreciable capital assets had a net increase of \$2.5 million, the net result of \$7.8 million of capital assets added for the year, offset by accumulated depreciation (net of adjustments) for the year of \$5.3 million. Additional depreciable capital assets purchased for the year were due to capital investments (net of disposals of \$1.5 million) in the treatment and collection systems of \$7.6 million, and machinery and equipment of \$0.2 million, necessary to provide continuous reliable service to its customers.

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 to minimize sewer overflow and/or any disruptions of service.

Major treatment and collection systems purchased and/or constructed by the District (95% of \$9.1 million) for the fiscal year include:

Project Description	Acquisition Costs
Photovoltaic Energy Generation Project	\$3,145,910
Aeration Systems Improvement Project	<u>5,480,443</u>
<b>Total</b>	<b>\$8,626,353</b>

DELTA DIABLO  
MANAGEMENT'S DISCUSSION & ANALYSIS  
For the Fiscal Year Ended June 30, 2014 and 2013

This year's major construction in progress projects (73% of \$7.1 million) include:

Project Description	Acquisition Costs
Bay Area Biosolids To Energy Project Planning	\$1,662,514
Pittsburg Recycled Water Line Rehabilitation	1,269,481
FOG Receiving Facility	808,658
Secondary Solids Thickener	691,179
Pittsburg Force Main Improvements	<u>686,456</u>
<b>Total</b>	<b>\$5,118,289</b>

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

**Debt.** Total net debt obligations for FYE 2014, FYE 2013, and FYE 2012 totaled \$21.8 million, \$25.4 million and \$27.2 million, respectively. Outstanding debt decreased by \$3.5 million or 14% this year compared to the prior year. This net decrease was due to total scheduled principal payments on outstanding debt of \$4.2 million, partially offset by accreted interest (1991 COP) of \$0.7 million.

The 1991 certificates of participation and related interest, the 1997, 2010 and 2011 California State Revolving Fund (SRF) loans, and the 2011 installment note payable 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.

**Long-term Debt (net of discount)**

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
1991 Certificates of participation (COP)	\$2,060,422	\$2,841,714	\$3,684,374	(27)%	(23)%
1991 COP accreted interest	7,007,460	8,872,598	10,509,432	(21)%	(16)%
1997 State revolving fund loan (SRF)	627,237	828,955	1,027,100	(24)%	(19)%
2010 SRF loan	5,382,766	5,697,212	6,011,416	(6)%	(5)%
2011 Installment Note Payable	1,923,203	2,072,577	2,212,746	(7)%	(6)%
2011 SRF loan	4,844,593	5,041,873	3,716,052	(4)%	36%
Total long-term debt (net)	<u>\$21,845,681</u>	<u>\$25,354,929</u>	<u>\$27,161,120</u>	(14)%	(7)%

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

The latest debt rating review (2012) received by the District resulted in the credit rating of AA being re-affirmed by Standard & Poors (S&P). S&P views the outlook for this AA rating as stable and reflects the District's very strong financial performance. S&P pointed out the primary reason for re-affirming this strong bond rating is the District board's willingness to continue to adjust rates incrementally and the very prudent approach to start collecting and setting aside funds for the advanced treatment plant project in anticipation of nutrient removal regulations. 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 largely collected through the County's Teeter Plan.

DELTA DIABLO  
MANAGEMENT'S DISCUSSION & ANALYSIS  
For the Fiscal Year Ended June 30, 2014 and 2013

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

**Economic Factors.** As noted earlier, the District 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:

- Continued 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 directly billed. Any market losses can potentially affect District investments and OPEB trust fund balances.
- Changes in the State budget and future legislation, including the recent passage of the California Pension Reform Act of 2013 and, although limited, future state borrowing from local governments. The California pension reforms will result in future savings to the District due to lower required employer contribution rates.
- Changes in Federal, State budget and legislation could affect the District's ability to secure additional grant funding and low interest loans.
- Changes in assessed property values affects the District's property tax revenue. As the housing market improves, the assessed property values should follow, thereby increasing the District's property tax revenue. Conversely, any decline with the housing market will decrease property values and correspondingly decrease property tax for the District.
- Changes in the Governmental Accounting Standard Board (GASB) pronouncements related to financial reporting including pension plan reporting. The District is currently evaluating the impact of the new pension plan reporting requirements on the financial statements effective June 30, 2015.

All of these factors to the extent known were considered in preparing the District's budget for FYE 2015.

**Next Year's Budget and Rates.** The District has a three-year operating budget cycle, with the latest covering FY2012/13 through FY2014/15. The District annually conducts reviews and updates the budget document, and the Board's 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. FY2014/15 is the final year of the current three-year operating budget cycle.

In July 2014, the Board adopted the FY2014/15 operating budget with a total District budget expense appropriation of \$46.1 million. As part of that action, the Board also authorized short-term borrowings between funds, which will be re-paid with interest; and authorized an increase to the contributed benefit savings reserve rate to 3.75% from 2.44% of salaries. An inter-fund loan of up to \$0.8 million was approved from wastewater capital asset replacement fund to wastewater expansion. Additionally, an inter-fund loan of up to \$0.4 million from the wastewater operating fund to the wastewater capital asset fund was approved. The wastewater expansion fund is projected to use more funds than available during FY 2014/15 primarily due to anticipated CFCC revenues being lower than scheduled debt service payments. The wastewater capital asset fund is projected to use more funds than available from revenues received and its reserve fund balance in FY 2014/15 based on the adopted CIP. As a policy, the District Board approves any inter-fund borrowing and/or external debt financing. Contributed benefit savings reserve is used to cover actuarially calculated funding shortfalls in the Contra Costa County Employees' Retirement Association (CCCERA) trust fund for prior District employees who remain members in that retirement system. The District discontinued its participation with CCCERA and moved to CalPERS retirement effective June 2004.

DELTA DIABLO  
MANAGEMENT'S DISCUSSION & ANALYSIS  
For the Fiscal Year Ended June 30, 2014 and 2013

As noted earlier, the District has a five-year Capital Improvement Program which is updated annually. In May 2014 the Board adopted the FY2014/15–2018/19 CIP. The 2014 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. The FY 2014/15 - 2018/19 CIP includes approximately \$73.9 million for planned projects over five years. It includes 12 new projects with an estimated combined total value of \$26.9 million. Approval of the CIP establishes the new FY 2014/15 CIP total budget appropriation of \$17.4 million.

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. It is not assumed that any of these revenues will be used for ongoing operations.

Wastewater Sewer Service Charges

The District's collection of sewer service charges is primarily done through the County Property Tax Roll (Teeter Plan). Actual increases to these charges, if any, are considered by the Board annually based on updated cash flow projections. At the June 11, 2014 Board meeting, the Board approved a total of 6.5% rate increase on sewer service charges for FY 2013/14. This increase is 1.2% lower than projected in the prior year's rate analysis, primarily due to the Board-approved payoff of the nearly \$3.9 million CalPERS side-fund, which was previously being paid over time at an interest rate of 7.5%. This results in savings to ratepayers of nearly 14% of previously projected yearly increases. The total increase of 6.5% in sewer service charges comprises of a 3.8% rate increase needed to adequately meet projected expenditures for the year, coupled with an additional increase of 2.7%, setting aside funds for a future major advanced treatment project anticipated to be required to meet likely new discharge regulations. This was the third year with an incremental 2.7% increase for this purpose. 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. As of FYE 2014, the Advance Treatment plant reserve has a balance of \$2.9 million. It is expected that the Advance Treatment plant will be designed by FY 2021/22 and complete construction in late FY 2023/24.

Recycled Water Service Charges

On July 2014, the new recycled water rates were established for fiscal year 2014/15 and approved by the District board. The variable rate component was increased by \$5.57 per acre foot, or 2.2% with the overall recycled water rates to \$341.82 cost per acre foot or 2.6% compared to last year. The rates are well under the costs of potable water.

The Calpine revenue stability surcharge and the monthly Antioch recycled water project surcharge was also approved to continue for fiscal year 2014/15. The monthly stability surcharge of \$20,000 per month will remain due to the continued uncertainty about the level of future use of recycled water by the Calpine plants. This will be evaluated on an annual basis. The additional recycled water surcharges from the Cities of Antioch and Pittsburg are to cover each City's share of the project costs related to the recycled water. For additional information on the recycled water surcharges for each City, see the financial footnotes section Note 3 – Notes Receivable.

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.

Cost of Living Adjustments (COLA)

The bargaining unit MOUs provide that COLA will be effective the first full pay period after July 1 each year, from a minimum of 2% up to 5%, based on the April to April change in the Consumer Price Index (CPI), San Francisco/Bay Area, Wage Earners. The April 2014 year-over-year CPI was 2.6% or 0.4% less than previously assumed, which will be effective in fiscal year 2014/15.



DELTA DIABLO  
MANAGEMENT'S DISCUSSION & ANALYSIS  
For the Fiscal Year Ended June 30, 2014 and 2013

OPEB and the District's Retiree Health Funding Plan

The District participates in a qualified, irrevocable trust fund that is established solely for the purpose of paying OPEB obligations. As of FYE 2014, the irrevocable trust fund has a balance of \$7.2 million. In July 2011, per the Board approved District Retiree Health Funding Plan, employees began contributing to the OPEB trust. 3% is the maximum that will be contributed by employees towards OPEB, which was reached in July 2012. The District will be matching the employee's contribution. It is projected that the combination of employees' and the District required match contribution will fund about one-third of the FYE 2015 annual required contribution. The Board's adopted OPEB funding policy states the Board's intent to fully fund the remaining annual obligation. For additional information on OPEB, see accompanying notes to the financial statements No.9 – OPEB.

Pensions

On November 9, 2011, the District's Board approved side letters to each of the three employee bargaining unit's Memorandum of Understanding (MOU) related to pension reform. This initiative will result in current employees making the full employee contribution of 8% to CalPERS over time. It also created a second tier pension plan (Tier II) for employees hired on or after July 1, 2012, which will result in substantially lower employer contributions by the District, as well as these new employees fully paying the employee contributions. In addition, there are provisions for the District matching of employee deferred compensation contributions of up to 4% over time and for Tier I plan employees and up to 3.5% for Tier II employees immediately upon hire. The financial impact of these changes began in FY 2013/14, with the Tier I employee payments into CalPERS at 1% of salaries. Employee payments will increase to 2% in FY2014/15, the final year of the three year budget, further reducing costs that otherwise would have been budgeted as District-paid benefits. Also, beginning in FY2014/15, the District will match up to 1% of employee contributions into a deferred compensation account. The new California Public Employees' Pension Reform Act of 2013 (AB 340 or PEPRA) was implemented in fiscal year 2012/13. After PEPRA, the District now has three pensions (Tiers I-III), and has reduced benefit formulas for Tiers II and III relative to Tier I. For the most part, savings from PEPRA will come far in the future, as the majority of the changes apply only to newly-hired employees, and none of these changes affect the existing unfunded pension liability.

CalPERS Rate of Return Reductions and Employer Contribution Rates

The CalPERS Board of Directors reduced its annual rate of return assumption from 7.75% to 7.5%, which CalPERS estimated increasing employer contribution rates by up to 2% beginning in FY2013/14. CalPERS recently decided to phase the increase over two fiscal years, but have not provided specific estimates of how it would be allocated each year. Therefore, the full 2% has been added in FY2013/14 budget. CalPERS issues an annual valuation report, the most recent valuation available was as of June 30, 2011. The District had only Tier I plan employees as of June 30, 2011, the funding status reported is for that risk pool only. The next valuation will be as of June 30, 2012, which will also pertain only to Tier I employees. The June 30, 2013 valuation will also include the Tier II (2.0% at 55) and Tier III (2.0% at 62) plans.

For fiscal year 2013/14, the required employer contribution for pension Tiers I, II and III employees is 16.2%, 11.2%, and 6.7%, respectively.

See accompanying notes to the financial statements No.8 – Retirement Plan for additional information.

**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  
STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013

ASSETS	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash (Note 2)	\$1,936,810	\$1,590,900
Investments (Note 2)	26,673,688	23,204,168
Accounts receivable	897,789	1,299,010
Interest receivable	14,253	13,563
Notes receivable, current portion (Note 3)	317,354	316,735
Employee computer loans receivable, current portion (Note 4)	8,895	11,727
Materials and supplies (Note 1H)	768,454	748,944
Prepaid expenses	<u>199,986</u>	<u>67,345</u>
Total current assets	<u>30,817,229</u>	<u>27,252,392</u>
NON-CURRENT ASSETS		
Restricted cash and investments (Note 2H)	2,088,848	2,088,821
Designated cash and investments (Note 2I)	4,292,068	2,892,655
Other Assets:		
Notes receivable, less current portion (Note 3)	5,337,617	5,654,971
Employee computer loans receivable, less current portion (Note 4)	5,102	5,958
Net OPEB asset (Note 9)	<u>1,248,378</u>	<u>591,746</u>
Total other assets	<u>6,591,097</u>	<u>6,252,675</u>
Capital Assets (Note 5):		
Capital assets, non-depreciable	9,775,464	16,121,494
Depreciable capital assets, net of accumulated depreciation	<u>130,980,174</u>	<u>128,465,469</u>
Total capital assets, net	<u>140,755,638</u>	<u>144,586,963</u>
Total noncurrent assets	<u>153,727,651</u>	<u>155,821,114</u>
TOTAL ASSETS	<u>184,544,880</u>	<u>183,073,506</u>

(Continued)

See accompanying notes to financial statements

DELTA DIABLO  
STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013

	2014	2013
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$1,581,208	\$1,014,659
Accrued payroll and benefits	589,337	681,273
Deposits payable	46,376	12,658
Unearned revenue	435,971	722,652
Compensated absences - current portion (Note 6)	643,889	646,977
Current portion of long-term debt (Note 7)	1,612,468	1,644,110
Accreted interest (Note 7)	2,582,087	2,528,708
Accrued interest payable	5,655	7,473
Total current liabilities	7,496,991	7,258,510
LONG-TERM LIABILITIES		
Long-term debt, net of current portion (Note 7):		
Certificates of participation	1,327,509	2,060,422
State revolving fund loans	10,134,156	10,854,597
Installment sale agreement	1,764,088	1,923,202
Accreted interest	4,425,373	6,343,890
Total long-term debt, net of current portion	17,651,126	21,182,111
Compensated absences -net of current portion (Note 6)	208,350	232,069
Property tax refund	31,121	31,121
Total long-term liabilities	17,890,597	21,445,301
TOTAL LIABILITIES	25,387,588	28,703,811
NET POSITION (Note 11)		
Net investment in capital assets	125,917,417	128,104,632
Restricted for debt service	2,088,848	2,088,821
Unrestricted	31,151,027	24,176,242
TOTAL NET POSITION	\$159,157,292	\$154,369,695

See accompanying notes to financial statements

DELTA DIABLO  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Service charges	\$27,151,658	\$25,824,829
Discharge permits	167,150	186,200
Household hazardous waste operating fees	437,394	457,034
Miscellaneous	641,136	554,666
Work for others	<u>915,624</u>	<u>1,479,705</u>
Total operating revenues	<u>29,312,962</u>	<u>28,502,434</u>
OPERATING EXPENSES		
Salaries and benefits	13,500,132	17,593,719
Chemicals	1,160,309	1,311,718
Depreciation (Note 5)	6,821,159	6,506,348
Office expense	816,023	840,356
Operating expense	813,770	812,437
Outside service and maintenance	4,071,441	3,810,858
Travel and meetings	79,253	90,789
Utilities	1,606,954	1,444,024
Other	<u>130,976</u>	<u>128,920</u>
Total operating expenses	<u>29,000,017</u>	<u>32,539,169</u>
OPERATING INCOME (LOSS)	<u>312,945</u>	<u>(4,036,735)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(695,818)	(868,105)
Interest income	174,179	189,139
Capital facilities capacity charges (Note 11)	2,250,790	2,280,985
Lease revenue (Note 12)	36,125	36,125
Gain (Loss) on sale of asset	(415,681)	20,382
State grants	512,404	(1,742)
Federal grants		205,043
Subgrants	914,469	272,185
Property taxes	<u>1,698,185</u>	<u>1,627,706</u>
Total nonoperating revenues (expenses), net	<u>4,474,653</u>	<u>3,761,718</u>
NET INCOME (LOSS)	4,787,598	(275,017)
NET POSITION, BEGINNING OF YEAR	<u>154,369,695</u>	<u>154,644,712</u>
NET POSITION, END OF YEAR	<u><u>\$159,157,292</u></u>	<u><u>\$154,369,695</u></u>

See accompanying notes to financial statements

DELTA DIABLO  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$29,714,183	\$29,002,804
Payments to employees	(12,962,243)	(17,185,362)
Payments to utilities	(1,606,954)	(1,444,024)
Payments to contractual/professional services	(4,037,723)	(4,611,171)
Payments to suppliers	(2,375,704)	(3,280,411)
Other receipts (payments)	(496,910)	(466,182)
	<u>8,234,649</u>	<u>2,015,654</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Taxes	1,698,185	1,627,706
State, federal and sub grants	1,426,873	475,486
Receipts on employee computer loans	3,688	106
	<u>3,128,746</u>	<u>2,103,298</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(3,407,367)	(4,876,664)
Proceeds from sale of capital assets	(415,681)	20,382
Proceeds from SRF loan		1,325,821
Interest paid on long-term debt	(697,636)	(869,891)
Payment of long-term debt	(1,644,110)	(1,222,182)
Connection fees	2,250,790	2,280,985
	<u>(3,914,004)</u>	<u>(3,341,549)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Redemption and acquisition of investments, net	(4,868,960)	667,718
Change in fair value of investments	(2,764,558)	(3,059,466)
Receipts on note	320,423	(40,633)
Interest received on investments	173,489	192,071
Interest received on lease	36,125	36,125
	<u>(7,103,481)</u>	<u>(2,204,185)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	345,910	(1,426,782)
Cash, beginning of year	<u>1,590,900</u>	<u>3,017,682</u>
Cash, end of year	<u>\$1,936,810</u>	<u>\$1,590,900</u>
<b>Reconciliation of operating (loss) to net cash provided by operating activities:</b>		
Operating (loss)	\$312,945	(\$4,036,735)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	6,821,159	6,506,348
Change in assets and liabilities:		
Receivables, net	401,221	500,370
Materials and supplies	(19,510)	(32,724)
Prepaid expenses	(132,641)	71,910
Accounts payable and accrued expenses	566,549	(355,086)
Accrued payroll and related expenses	(118,743)	(166,408)
Deposits payable	33,718	(800,313)
Unearned revenue	(286,681)	(246,473)
Net OPEB obligation and asset	656,632	574,765
	<u>\$8,234,649</u>	<u>\$2,015,654</u>
<b>SCHEDULE OF NON CASH ACTIVITY</b>		
Accreted interest on bonds	(\$1,918,517)	(\$1,698,202)
Change in fair value of investments	(2,764,558)	(3,059,466)

See accompanying notes to financial statements

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**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General**

Delta Diablo (District), formerly known as Delta Diablo Sanitation 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 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 (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 Position and the Statements of Revenues, Expenses and Changes in Net Position display information about the Delta Diablo. 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.

**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***D. Budgets and Budgetary Accounting***

Delta Diablo 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**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J.      *Reclassification***

For the year ended June 30, 2014, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform to the fiscal year 2013 presentation.

**K.      *Implementation of Governmental Accounting Standards Board (GASB) Statements***

**GASB Statement No. 65** – In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. This Statement had no impact on the District's financial statements for fiscal year ending June 30, 2014.

**GASB Statement No. 66** – In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 - An Amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. This Statement did not have a material impact on the District's financial statements for fiscal year ending June 30, 2014.

**GASB Statement No. 67** – In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. This Statement did not have a material impact on the District's financial statements for fiscal year ending June 30, 2014.

**GASB Statement No. 70** – In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. This Statement did not have a material impact on the District's financial statements for fiscal year ending June 30, 2014.

**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**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.

**B. Classification**

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

	2014	2013
Cash, available for District operations	\$1,936,810	\$1,590,900
Investments, available for District operations	26,673,688	23,204,168
Restricted cash and investments	2,088,848	2,088,821
Designated cash and investments	4,292,068	2,892,655
Total Cash and Investments	\$34,991,414	\$29,776,544

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

	2014	2013
Cash on hand	\$800	\$800
Deposits held by County Treasury	470,044	1,114,117
Deposits with financial institutions	1,227,835	442,225
Investments	33,292,735	28,219,402
Total Cash and Investments	\$34,991,414	\$29,776,544

**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**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 that address interest rate risk, credit risk and concentration of credit risk:

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
Local Agency Investment Fund	n/a		\$40 million 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  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
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		

**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**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.

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, 2014:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	2014	2013
<b>Held by District:</b>					
U.S. Government Agency Obligations	\$601,729		\$1,951,550	\$2,553,279	\$1,608,397
Corporate Notes	605,910		2,034,954	2,640,864	1,619,391
California Local Agency Investment Fund	26,089,416			26,089,416	23,186,031
Money Market Mutual Funds (U.S. Securities)	238,131			238,131	33,758
<b>Held by Trustees:</b>					
Certificates of Deposit	1,009,043	\$502,928	259,067	1,771,038	1,771,818
Money Market Mutual Funds (U.S. Securities)	7			7	7
Total Investments	<u>\$28,544,236</u>	<u>\$502,928</u>	<u>\$4,245,571</u>	<u>\$33,292,735</u>	<u>\$28,219,402</u>

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, 2014 and 2013, these investments matured in an average of 232 and 278 days, respectively.

Money market mutual funds are available for withdrawal on demand. At June 30, 2014 and 2013, these investments matured in an average of 36 and 37 days, respectively.

**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**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, 2014 for each investment type as provided by Moody's investment rating system:

Investment Type	Aaa	Total	
		2014	2013
<b>Held by District:</b>			
U.S. Government Agency Obligations	\$2,553,279	\$2,553,279	\$1,608,397
Corporate Notes	2,640,864	2,640,864	1,619,391
Money Market Mutual Funds (U.S. Securities)	238,131	238,131	33,758
<b>Held by Trustees:</b>			
Certificates of Deposit	1,771,038	1,771,038	1,771,818
Money Market Mutual Funds (U.S. Securities)	7	7	7
Totals	<u>\$7,203,319</u>	7,203,319	5,033,371
<b>Not rated:</b>			
California Local Agency Investment Fund		<u>26,089,416</u>	<u>23,186,031</u>
Total Investments		<u>\$33,292,735</u>	<u>\$28,219,402</u>

**G. Concentration Risk**

At June 30, 2013, 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	\$1,006,904
Federal National Mortgage Association	Federal agency securities	601,432

There are no instances of concentration risk at June 30, 2014.

**H. Restricted Cash and Investments**

The District has the following restrictions on cash and investments:

**Restricted for Debt Service – 1991 Bonds** - 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, 2014 are \$39,910 and \$1,722,580 respectively, totaling \$1,762,490. The cash and investment amounts for June 30, 2013 were \$39,883 and \$1,722,580 respectively, totaling \$1,762,463.

**Restricted for Debt Service – State Revolving Fund Loan**- The District has restricted investments in reserves as required by the agreement between the District and the California State Water Resources Control Board State Revolving Fund Loan (SRF) in the amount of \$326,358 at June 30, 2014 and 2013.

**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**I. Board Designated Investments**

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

**Designated for Advanced Treatment Plant** - The District has designated investments for the anticipation of the need for an advanced treatment plant in the amount of \$2,871,467 and \$1,340,392 at June 30, 2014 and 2013, respectively.

**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 at June 30, 2014 and 2013.

**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 \$132,000 and \$128,287 at June 30, 2014 and 2013, respectively.

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 of \$3,130,886 is to be amortized over 15 years, resulting in annual payments of \$360,215 starting December 31, 2010. As of June 30, 2014, the amount designated by the District for Employee Benefit Costs is \$188,608 the majority of which will cover the December 2014 payment.

As of June 30, 2014 and 2013, respectively, the total amount for designated related employee benefits costs is \$320,601 and \$452,263.

**Designated for Insurance** - The District has designated investments for potential insurance claims in the amount of \$500,000 at both June 30, 2014 and 2013.

**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

<b>NOTE 3 – NOTES RECEIVABLE</b>
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Notes receivable at June 30 consisted of the following:

	2014	2013
RWF:		
City of Antioch	\$4,254,898	\$4,503,457
City of Antioch - Surcharge	1,029,218	1,066,520
City of Pittsburg - Surcharge	301,635	328,582
HHW:		
Contra Costa County	69,220	70,682
La Chicana	-	2,465
Total Notes Receivable	5,654,971	5,971,706
Less: Current Portion	(317,354)	(316,735)
Long-Term Portion	\$5,337,617	\$5,654,971

**Recycled Water (RW):**

**City of Antioch** - 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.

In fiscal year 2010/2011, the District recognized a Note Receivable in the amount of \$5,753,348 from the City of Antioch for their net share of the costs for this project. This note has an interest rate of .077% with principal and interest due annually commencing December 31, 2011 and maturing on December 31, 2030. On June 10, 2012, the District and the City of Antioch amended the Joint Powers Agreement to cap this Notes Receivable to a maximum of \$5,000,000.

In fiscal year 2011/2012, additional project cost share incurred in excess of \$5 million in the amount of \$1,102,272 will be financed by the District at an interest rate of 4.25% with principal and interest due monthly over a 20-year term commencing July 1, 2012 and maturing on June 1, 2032. This monthly installment is billed to the City of Antioch as a Recycled Water Surcharge and annually amounts to \$81,908.



**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 3 – NOTES RECEIVABLE (Continued)**

**City of Pittsburg** - The District and the City of Pittsburg (City) entered into a Joint Powers Agreement on November 24, 1999, for the purpose of development and operation of a “Recycled Water Program” (the Project). The goal of this project is to construct and transport recycled water to the City’s golf course and certain parks to reduce the City’s reliance on treated drinking water for irrigation. Under the provisions of the agreement, the Project is to be jointly funded by the District and the City. The City is responsible for the design and construction of the Project. The District will operate and maintain after construction is completed. The original project was completed, however, it was discovered that a portion of the previously existing line needs to be rehabilitated in order to ensure reliability. The estimated cost for this rehabilitation project was \$1,500,000. Of this amount, the City has agreed to pay a maximum of \$375,000 payable over a 10-year term with an interest of 4.25 percent (prime plus 1 percent).

In fiscal year 2013/2014, the City’s share of the actual cost of this rehabilitation amounted to \$328,583. The District recognized a Note Receivable for this amount with principal and interest due monthly commencing July 1, 2013 and maturing on June 1, 2023. This monthly installment is billed to the City of Pittsburg as a Recycled Water Surcharge and annually amounts to \$40,391.

**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 Delta Household Hazardous Waste Collection Facility (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. Total capital costs were allocated to the Subscribers based on the number of housing units in each Subscriber’s jurisdiction. The City of Brentwood and Ironhouse Sanitary District have paid its share in full.

**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. On June 1, 2014 the note was paid in full.

**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**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:

	2014	2013
Employee computer loans	\$13,997	\$17,685
Less: current portion	(8,895)	(11,727)
Long-term portion	\$5,102	\$5,958

**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

**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 5 – CAPITAL ASSETS (Continued)**

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

	Balance at June 30, 2013	Additions	Transfers	Retirement	Balance at June 30, 2014
Capital assets not being depreciated:					
Land	\$2,719,251				\$2,719,251
Construction in Progress	13,402,243	\$3,376,561	(\$9,722,591)		7,056,213
Total capital assets not being depreciated	16,121,494	3,376,561	(9,722,591)		9,775,464
Capital assets being depreciated:					
Treatment & Collection System	215,589,270		9,077,885	(\$1,469,929)	223,197,226
Equipment	4,215,767	30,806	644,706	(459,187)	4,432,092
Total capital assets being depreciated:	219,805,037	30,806	9,722,591	(1,929,116)	227,629,318
Less accumulated depreciation for:					
Treatment & Collection System	87,907,675	5,930,415		(571,444)	93,266,646
Equipment	3,431,893	390,744		(440,139)	3,382,498
Total accumulated depreciation	91,339,568	\$6,321,159		(\$1,011,583)	96,649,144
Net capital assets being depreciated	128,465,469				130,980,174
Total Capital Assets, net	\$144,586,963				\$140,755,638

Construction in progress represents construction of treatment and collection facilities.

**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 6 – COMPENSATED ABSENCES**

Accumulated unpaid vacation and compensatory time have been accrued at year end. Accumulated unpaid sick pay is not included in the amount for accrued benefits due to the contingent nature of any future payment.

As of June 30, the changes in compensated absences were as follows:

	2014	2013
Beginning Balance	\$879,046	\$859,352
Additions	752,507	613,380
Payments	<u>(779,314)</u>	<u>(593,686)</u>
Ending Balance	<u>\$852,239</u>	<u>\$879,046</u>
Current Portion	\$643,889	\$646,977
Non Current Portion	<u>\$208,350</u>	<u>\$232,069</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, 2014 was \$117,205 and is included in the balance of Accrued Payroll and Benefits on the Statements of Net Position.

**NOTE 7 – LONG-TERM DEBT**

**A. Current Year Transactions and Balances**

	Original Issue Amount	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amount due within one year
1991 Certificates of Participation Wastewater Facilities Expansion Project, 4.6-6.25%, due 12/01/2016	\$17,454,950	\$2,841,714		\$781,292	\$2,060,422	\$732,913
Accreted interest on 1991 Certificates		8,872,598	\$663,570	2,528,708	7,007,460	2,582,087
1997 State Revolving Fund Loan 1.80%, due 12/31/2016	3,611,046	828,955		201,718	627,237	205,355
2010 State Revolving Fund Loan .077%, due 12/31/2030	6,325,503	5,697,212		314,446	5,382,766	314,687
2011 Installment Sale Agreement 4.9%, due 6/24/2031	2,344,210	2,072,577		149,374	1,923,203	159,115
2011 State Revolving Fund Loan 2.60%, due 4/03/2033	5,041,873	<u>5,041,873</u>		197,280	<u>4,844,593</u>	<u>200,398</u>
Total Long-Term Debt		25,354,929	<u>\$663,570</u>	<u>\$4,172,818</u>	21,845,681	<u>\$4,194,555</u>
Less:						
Amount due within one year		<u>(4,172,818)</u>			<u>(4,194,555)</u>	
Total Long-Term Debt, net		<u>\$21,182,111</u>			<u>\$17,651,126</u>	

**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 7 – LONG-TERM DEBT (Continued)**

***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.

***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 \$6,325,503 with a stated interest rate of .077% per annum over a 20-year term. The City of Antioch owes the District \$5,000,000 of this amount as part of their cost share for the Recycled Water Antioch Project (see Note 3-Notes Receivable). Principal payments are due annually beginning on December 31, 2011 through the fiscal year 2030.

***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. 2011 State Revolving Fund (SRF) Loan***

The District entered into a loan contract with the State of California (State Water Resources Control Board) on March 25, 2011, for the purpose of financing the Aeration System Improvement Project. The loan amount totals \$5,041,873 with a stated interest rate of 2.60% per annum. Principal payments are due annually beginning on April 3, 2014 through the fiscal year 2033. The principal and interest payments are payable from all net revenue of the District.

**DELTA DIABLO**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 7 – LONG-TERM DEBT (Continued)**

**G. Debt Service Requirements**

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

For The Year Ending June 30	Principal (A)	Interest	Total
2015	\$4,194,555	\$233,724	\$4,428,279
2016	3,378,141	1,047,515	4,425,656
2017	4,065,220	236,660	4,301,880
2018	590,180	188,195	778,375
2019	602,224	179,392	781,616
2020 - 2024	3,211,276	748,213	3,959,489
2025 - 2029	3,603,722	449,424	4,053,146
2030 - 2034	2,200,363	102,465	2,302,828
Total payments due	<u>\$21,845,681</u>	<u>\$3,185,588</u>	<u>\$25,031,269</u>

(A) Includes unaccrued discount totaling \$7,007,460

**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 Public Employees' Pension Reform Act (PEPRA) of 2013 was created with the passing of Assembly Bill 340 (AB 340) signed by the Governor on September 2012. PEPRA implemented new benefit formulas, final compensation period and new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of "new member" under this bill.

**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 8 – RETIREMENT PLAN (Continued)**

The table below reflects the Plans' provisions and benefits in accordance with PEPRA at June 30, 2014, are summarized as follows:

	Miscellaneous		
	Tier I	Tier II	Tier III
Hire date	Prior to 6/30/12	6/30/12 to 12/31/12 and employees hired on or after 1/1/13 who are not a "new member"	On or after 1/1/13; new member
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement Age	55	55	62
Monthly benefits, as a % of annual salary	2.7%	2.0%	2.0%
Required employee contribution rates	8.0%	7.0%	6.5%
Required employer contribution rates	16.246%	11.210%	6.700%

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% has been assumed in the past, but was revised to 7.5% for the future valuations, including inflation at 2.75%. 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.

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 6 years as of June 30, 2010. In October 2012, the District fully repaid its Side Fund by paying a lump sum of \$3,856,463.

**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 8 – RETIREMENT PLAN (Continued)**

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
2014	\$1,783,375	100%	16.25%
2013	2,137,266	100%	16.00%
2012	1,958,493	100%	25.00%

CALPERS' latest available actuarial value (which differs from market value) and funding progress are set forth below at their actuarial valuation of June 30, 2012.

*Miscellaneous Plan - State Pool:*

Valuation Date	Actuarial			Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability			
2012	\$2,680,181,441	\$2,178,799,790	\$501,381,651	81.29%	\$417,342,310	120.14%
2011	2,486,708,579	1,981,073,089	505,635,490	79.67%	427,300,410	118.33%
2010	2,297,871,345	1,815,671,616	482,199,729	79.02%	434,023,381	111.10%

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

Actuarially required contributions were \$1,783,375, \$2,137,266 and \$1,958,493 for fiscal years 2014, 2013 and 2012, 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 follows the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement established uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). Required disclosures are presented below.

**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).



**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS**

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, 2014, 35 retirees were receiving benefits.

***B. Actuarial Assumptions***

The annual required contribution (ARC) was determined as part of a June 30, 2012 actuarial valuation, the most recent available, 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) 6.5% investment rate of return, (b) 3.25% projected annual salary increase, (c) 3% inflation rate and (d) health care cost trend rates from 5.0% to 8.9% 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 30 year amortization period on a closed basis. As of June 30, 2012, there were 26-years remaining in the initial 30-year amortization period.

**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

**Funding Progress and Funded Status**

The District's Net OPEB Asset is recorded in the Statement of Net Position and is calculated as follows:

Net OPEB Obligation (Asset) at June 30, 2012		(\$16,981)
Annual OPEB cost - fiscal 2012/2013:		
Annual required contribution (ARC)	\$974,000	
Interest on Net OPEB Obligation	(1,000)	
Adjustments to ARC	<u>1,000</u>	
Annual OPEB cost - fiscal 2012/2013	<u>974,000</u>	
Less contributions made during fiscal year 2012/2013:		
Contributions made to PARS irrevocable trust	<u>1,548,765</u>	
Total contributions	<u>1,548,765</u>	
(Decrease) in net OPEB obligation		<u>(574,765)</u>
Net OPEB Obligation (Asset) at June 30, 2013		(591,746)
Annual OPEB cost - fiscal 2013/2014:		
Annual required contribution (ARC)	1,006,000	
Interest on Net OPEB Asset	1,000	
Adjustments to ARC	<u>(1,000)</u>	
Annual OPEB cost - fiscal 2013/2014	<u>1,006,000</u>	
Less contributions made during fiscal year 2013/2014:		
Contributions made to PARS irrevocable trust	<u>1,662,632</u>	
Total contributions	<u>1,662,632</u>	
Increase in net OPEB asset		<u>(656,632)</u>
Net OPEB Obligation (Asset) at June 30, 2014		<u><u>(\$1,248,378)</u></u>

As of the June 30, 2012 Actuarial Valuation, the actuarial accrued liability (AAL) representing the present value of future benefits amounted to \$10,963,000.

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, 2014	\$1,006,000	\$1,662,632	165%	(\$1,248,378)
June 30, 2013	974,000	1,548,765	159%	(591,746)
June 30, 2012	965,000	1,498,344	155%	(16,981)

**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

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]
June 30, 2012	\$3,416,000	\$10,963,000	\$7,547,000	31.16%	\$8,054,000	93.70%
June 30, 2010	2,163,000	7,949,000	5,786,000	27.21%	7,602,000	76.11%
March 2, 2010	770,000	6,817,000	6,047,000	11.30%	7,109,000	85.06%

**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**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 10 – RISK MANAGEMENT (Continued)**

The following is a summary of the insurance policies in force carried by the Authority as of June 30, 2014:

Type of Coverage	Limits	Deductibles
General Liability	\$15,500,000	\$100,000
Excess General Liability	25,500,000	15,500,000
Worker's Compensation	750,000	None
Excess Worker's Compensation Liability	Statutory Limit	750,000
Special Form Property	137,201,028	25,000
Public Entity Physical Damage	689,936	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 POSITION**

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

*Net investment in Capital Assets* describes the portion of Net Positions 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 Position 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 Position which is not restricted to use.

**DELTA DIABLO  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**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 \$36,125 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 \$1,300,500 at June 30, 2014. 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:

For the Year Ending June 30	Minimum Future Rentals
2015	\$36,125
2016	36,125
2017	36,125
2018	36,125
2019	36,125
2020 - 2024	180,625
2025 - 2029	180,625
2030 - 2034	180,625
2035 - 2039	180,625
2040 - 2044	180,625
2045 - 2049	180,625
2050 - 2050	36,125
	\$1,300,500

**B. 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 \$4,239,712 and \$2,152,898 as of June 30, 2014 and 2013, respectively.

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**SUPPLEMENTARY INFORMATION**

DELTA DIABLO  
SUPPLEMENTARY SCHEDULE OF NET POSITION - PROPRIETARY FUND TYPE  
ENTERPRISE FUNDS  
JUNE 30, 2014

	Waste Water <sup>(A)</sup>	Waste Water Expansion <sup>(B)</sup>	Recycled Water Facility	Hazardous Waste
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash	\$711,507	\$313,291	\$401,885	\$290,663
Investments	19,261,714	80,838	3,374,701	
Accounts receivable	476,618		293,870	117,921
Interfund receivable	6,390,000		375,000	
Interest receivable	10,970	40	1,866	
Current portion of notes receivable			315,783	1,571
Current portion of employee computer loans receivable	8,895			
Inventory	708,709		59,745	
Prepaid expenses	190,874		9,112	
Total current assets	<u>27,759,287</u>	<u>394,169</u>	<u>4,831,962</u>	<u>410,155</u>
<b>NON-CURRENT ASSETS:</b>				
Restricted cash and investments	326,358	1,762,490		
Cash and investments	4,292,068			
<b>CAPITAL ASSETS:</b>				
Capital assets, non depreciable	7,262,100	633,380	1,638,196	
Capital assets, net of accumulated depreciation	<u>94,117,996</u>		<u>33,224,207</u>	<u>1,499,657</u>
Total capital assets, net	<u>101,380,096</u>	<u>633,380</u>	<u>34,862,403</u>	<u>1,499,657</u>
<b>OTHER ASSETS</b>				
Notes receivable less current portion			5,269,968	67,649
Employee notes receivable less current portion	5,102			
Net OPEB asset	<u>1,248,378</u>			
Total other assets	<u>1,253,480</u>		<u>5,269,968</u>	<u>67,649</u>
Total Noncurrent Assets	<u>107,252,002</u>	<u>2,395,870</u>	<u>40,132,371</u>	<u>1,567,306</u>
TOTAL ASSETS	<u>135,011,289</u>	<u>2,790,039</u>	<u>44,964,333</u>	<u>1,977,461</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable	1,151,541	141,248	91,968	106,905
Accrued payroll and benefits	565,342	1,512	11,908	3,102
Interfund payable	100,000	6,390,000	275,000	
Deposits payable	40,662	5,714		
Deferred revenue	366,751			69,220
Compensated absences - due within one year	643,889			
Current portion of long-term debt	359,513	938,268	314,687	
Accreted interest		2,582,087		
Accrued interest payable		<u>5,655</u>		
Total current liabilities	<u>3,227,698</u>	<u>10,064,484</u>	<u>693,563</u>	<u>179,227</u>
<b>NON-CURRENT LIABILITIES:</b>				
Long-term debt, net of current portion:				
Certificates of participation		1,327,509		
State revolving fund loans	4,644,195	421,882	5,068,079	
Installment sale agreement	1,764,088			
Accreted interest		4,425,373		
Compensated absences - due in more than one year	208,350			
Property tax refund, net of current portion	<u>31,121</u>			
Total long-term liabilities	<u>6,647,754</u>	<u>6,174,764</u>	<u>5,068,079</u>	
TOTAL LIABILITIES	<u>9,875,452</u>	<u>16,239,248</u>	<u>5,761,642</u>	<u>179,227</u>
<b>NET POSITION</b>				
Net investment in capital assets	94,612,300	(2,054,279)	29,479,637	1,499,657
Restricted for debt service	326,358	1,762,490		
Restricted for capital projects				
Unrestricted	<u>30,197,179</u>	<u>(13,157,420)</u>	<u>9,723,054</u>	<u>298,577</u>
TOTAL NET POSITION (DEFICIT)	<u>\$125,135,837</u>	<u>(\$13,449,209)</u>	<u>\$39,202,691</u>	<u>\$1,798,234</u>

<sup>(A)</sup> Wastewater is funded by user charges and is comprised of operations & maintenance, capital assets, and capital asset replacement for wastewater treatment and operations. Starting fiscal year 11/12 includes designations for Advanced Treatment Plant.

<sup>(B)</sup> Wastewater Expansion is funded by developers for connection fees.

<sup>(C)</sup> Street Sweeping is funded by user charges. Street sweeping activities prior to fiscal year 06/07 were reported under Waste Water.

<sup>(D)</sup> Bay Point is funded by user charges. Bay Point activities prior to fiscal year 06/07 were reported under Waste Water.



Street Sweeping <sup>(C)</sup>	Bay Point <sup>(D)</sup>	Total
\$110,599	\$108,865	\$1,936,810
873,355	3,083,080	26,673,688
\$56	9,324	897,789
		6,765,000
62	1,315	14,253
		317,354
		8,895
		768,454
		199,986
<u>984,072</u>	<u>3,202,584</u>	<u>37,582,229</u>
		2,088,848
		4,292,068
	241,788	9,775,464
	<u>2,138,314</u>	<u>130,980,174</u>
	<u>2,380,102</u>	<u>140,755,638</u>
		5,337,617
		5,102
		<u>1,248,378</u>
		6,591,097
	<u>2,380,102</u>	<u>153,727,651</u>
<u>984,072</u>	<u>5,582,686</u>	<u>191,309,880</u>
84,518	5,028	1,581,208
283	7,190	589,337
		6,765,000
		46,376
		435,971
		643,889
		1,612,468
		2,582,087
		5,655
<u>84,801</u>	<u>12,218</u>	<u>14,261,991</u>
		1,327,509
		10,134,156
		1,764,088
		4,425,373
		208,350
		31,121
		<u>17,890,597</u>
<u>84,801</u>	<u>12,218</u>	<u>32,152,588</u>
	2,380,102	125,917,417
		2,088,848
<u>899,271</u>	<u>3,190,366</u>	<u>31,151,027</u>
<u>\$899,271</u>	<u>\$5,570,468</u>	<u>\$159,157,292</u>

DELTA DIABLO  
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
PROPRIETARY FUND TYPE ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2014

	Waste Water <sup>(A)</sup>	Waste Water Expansion <sup>(B)</sup>	Recycled Water Facility	Household Hazardous Waste
<b>OPERATING REVENUES</b>				
Service charges	\$21,880,291		\$3,744,752	
Discharge permits	167,150			
Household hazardous waste operating fees				\$437,394
Miscellaneous	636,875			4,261
Work for others	914,162			1,462
<b>Total operating revenues</b>	<b>23,598,478</b>		<b>3,744,752</b>	<b>443,117</b>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	12,397,223	(\$2)	563,089	166,471
Chemicals	604,391		555,264	
Depreciation	5,418,560		1,247,120	39,588
Office expense	762,101		23,376	24,888
Operating expense	694,726		93,206	18,400
Outside services and maintenance	2,950,648	\$1,501	147,340	398,512
Travel and meetings	78,043		727	240
Utilities	1,154,037		452,349	568
Other	66,245			
<b>Total operating expenses</b>	<b>24,125,974</b>	<b>1,499</b>	<b>3,082,471</b>	<b>648,667</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(527,496)</b>	<b>(1,499)</b>	<b>662,281</b>	<b>(205,550)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest expense		(690,521)	(5,297)	
Interest income	77,300	17,241	68,336	5,044
Capital facilities capacity charges		2,250,790		
Lease revenue	36,125			
Gain (Loss) on sale of assets	(415,681)			
State grants	474,904		37,500	
Federal grants				
Subgrants			914,469	
Property taxes	1,558,641	139,544		
<b>Total nonoperating revenues</b>	<b>1,731,289</b>	<b>1,717,054</b>	<b>1,015,008</b>	<b>5,044</b>
<b>NET INCOME (LOSS) BEFORE TRANSFERS</b>	<b>1,203,793</b>	<b>1,715,555</b>	<b>1,677,289</b>	<b>(200,506)</b>
Transfers In	9,864,578	760,671		148,317
Transfers (Out)	(9,601,477)		(1,172,090)	
<b>Total transfers in (out)</b>	<b>263,101</b>	<b>760,671</b>	<b>(1,172,090)</b>	<b>148,317</b>
<b>NET INCOME (LOSS) AFTER TRANSFERS</b>	<b>1,466,894</b>	<b>2,476,226</b>	<b>505,199</b>	<b>(52,189)</b>
<b>NET POSITION (DEFICIT), BEGINNING OF YEAR</b>	<b>123,668,943</b>	<b>(15,925,435)</b>	<b>38,697,492</b>	<b>1,850,423</b>
<b>NET POSITION (DEFICIT), END OF YEAR</b>	<b>\$125,135,837</b>	<b>(\$13,449,209)</b>	<b>\$39,202,691</b>	<b>\$1,798,234</b>

<sup>(A)</sup> Wastewater is funded by user charges and is comprised of operations & maintenance, capital assets, and capital asset replacement for wastewater treatment and operations. Starting fiscal year 11/12 includes designations for Advanced Treatment Plant.

<sup>(B)</sup> Wastewater Expansion is funded by developers for connection fees.

<sup>(C)</sup> Street Sweeping is funded by user charges. Street sweeping activities prior to fiscal year 06/07 were reported under Waste Water.

<sup>(D)</sup> Bay Point is funded by user charges. Bay Point activities prior to fiscal year 06/07 were reported under Waste Water.

Street Sweeping <sup>(C)</sup>	Bay Point <sup>(D)</sup>	Total
\$604,152	\$922,463	\$27,151,658
		167,150
		437,394
		641,136
		915,624
<u>604,152</u>	<u>922,463</u>	<u>29,312,962</u>
7,306	366,045	13,500,132
	654	1,160,309
	115,891	6,821,159
	5,658	816,023
330	7,108	813,770
525,368	48,072	4,071,441
	243	79,253
		1,606,954
	64,731	130,976
<u>533,004</u>	<u>608,402</u>	<u>29,000,017</u>
<u>71,148</u>	<u>314,061</u>	<u>312,945</u>
		(695,818)
51	6,207	174,179
		2,250,790
		36,125
		(415,681)
		512,404
		914,469
		1,698,185
<u>51</u>	<u>6,207</u>	<u>4,474,653</u>
<u>71,199</u>	<u>320,268</u>	<u>4,787,598</u>
		10,773,566
		(10,773,567)
		(1)
71,199	320,268	4,787,597
<u>828,072</u>	<u>5,250,200</u>	<u>154,369,695</u>
<u>\$899,271</u>	<u>\$5,570,468</u>	<u>\$159,157,292</u>

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