

DELTA DIABLO SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

PREPARED BY THE
FINANCE DEPARTMENT

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**DELTA DIABLO SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Delta Diablo Sanitation District
Antioch, California

We have audited the accompanying basic financial statements of the Delta Diablo Sanitation District as of and for the years ended June 30, 2010 and 2009. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects, the financial position of the Delta Diablo Sanitation District at June 30, 2010 and 2009 and the changes in financial position and cash flows, thereof for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2010 on our consideration of the Delta Diablo Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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

Maze & Associates

October 1, 2010

DELTA DIABLO SANITATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2010 and 2009

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, 2010.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This section is intended to serve as an introduction to be read in conjunction with Delta Diablo Sanitation District's basic financial statements. The district-wide financial statements are shown on pages 11-36. The District's basic financial statements are comprised of two components: 1) Fund Financial Statements and 2) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

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

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

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

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

DELTA DIABLO SANITATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2010 and 2009

FINANCIAL HIGHLIGHTS

- The District's combined net assets totaled \$151.0 million.
- During the fiscal year, total net assets increased by \$6.0 million or 4%.
- Total assets increased by \$11.0 million or 6%
- Total liabilities increased by \$5.0 million or 17%
- Total revenues were \$36.2 million, an increase of \$6.2 million or 21%.
- Total expenses were \$30.2 million, an increase of \$2.4 million or 9%.
- Capital contributions were \$6.2 million, an increase of \$1.7 million or 39%

FINANCIAL ANALYSIS

Statement of Net Assets. As noted earlier, the changes in net assets serve as a useful indicator of Delta Diablo Sanitation District's financial position. In the current fiscal year (FYE 2010), the District's total net assets increased by \$6.0 million or 4%. In the prior fiscal year (FYE 2009), the District's total net assets increased by \$2.2 million or 2% over the previous fiscal year (FYE 2008).

The current fiscal year's increase is a net result of capital contributions (\$6.2 million) minus a minimal loss before contributions (\$0.2 million). Overall, the District's total assets exceeded total liabilities by \$151.0 million. This positive result is indicative of the District's strong financial position. The largest portion of Delta Diablo Sanitation District's net assets (77%) is invested in capital assets (land, treatment and collection facilities, machinery and equipment) net of related debt. These assets increased by \$3.4 million primarily due to capital projects completed this fiscal year which are necessary to provide services to District rate payers, so these assets are not available for future spending. An additional portion of the District's net assets (4%) represents resources that are subject to external restrictions on how they may be used. The increase in restricted net assets of \$1.7 million for this fiscal year is due to decreases in connection fees offset by increases in debt service. Connection fees decreased due to the continued downturn in the overall real estate market, specifically commercial and residential development. The remaining balance of the District's net assets (19%) represents the unrestricted portion of the net assets. Unrestricted net assets increased by \$0.9 million, providing additional resources available for the District's use in future periods.

Assets and Liabilities. Total assets increased by \$11.0 million or 6%, and total liabilities increased by \$5.0 million or 17%; resulting in increased net assets for the current fiscal year by \$6.0 million. In the previous fiscal year, total assets remained about the same compared to the prior year whereas total liabilities decreased by \$2.1 million, resulting in an increase of total net assets by \$2.2 million. The decrease in liabilities was primarily due to a reduction in debt arising from final payments made for the 2000 Revenue Bonds and 2001 Certificates of Participation.

For FYE 2010, current and other assets increased by \$4.2 million (11%) primarily due to increases in cash, intergovernmental grant and notes receivable, partially offset by a decrease in investments. Intergovernmental grants and notes receivable increased due to the recycled water projects in Antioch and Pittsburg. The reduction in investments is a result of the District's large expenditures for the recycled water distribution systems and other capital projects consistent with the five-year Capital Improvement Program; contributions made to a qualified, irrevocable trust for Other Post Employment Benefits (OPEB) approved by the Board (see note 9-OPEB for additional information); payment of long-term debt per the debt service schedule; with the remainder spent to cover operating costs. These large investments in capital assets this fiscal year resulted in a net increase in capital assets of over \$6.4 million (5%) compared to the prior fiscal year. Additionally, the contributions made to an irrevocable trust for OPEB reduced the net OPEB liabilities.

The net increase in total liabilities of \$5.0 million is attributable to moderate increases in accounts and deposits payable, and a \$3.0 million net long-term debt increase partially offset by moderate decreases in

DELTA DIABLO SANITATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2010 and 2009

compensated absences, net OPEB obligation due to payments made to the OPEB trust, and principal and interest payments towards the debt obligations for the year. The net increase in long-term debt of \$3.0 million is due a new State of California State Revolving Fund (SRF) loan to fund the Antioch Recycled Water project of \$5.2 million offset by debt service payments of \$2.2 million. The first principal and interest payment for the 1991 Certificates of Participation (COP) was paid in FY2009/10 (December 2009). Additional information on long-term debt will be discussed in the debt section of this analysis.

The following tables are shown in comparative format for fiscal year ended June 30, 2010, 2009 and 2008 with variances shown in percent for analysis.

Condensed Statement of Net Assets

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Current and other assets	\$41,889,595	\$37,691,015	\$40,946,938	11%	(8)%
Capital assets (<i>net</i>)	141,011,068	134,656,092	131,329,789	5%	3%
Total assets	<u>\$182,900,663</u>	<u>\$172,347,107</u>	<u>\$172,276,727</u>	6%	0%
Current and other liabilities	\$6,646,008	\$5,025,319	\$5,167,818	32%	(3)%
Long-term debt (<i>net</i>)	25,300,157	22,347,545	24,343,576	13%	(8)%
Total liabilities	<u>\$31,946,165</u>	<u>\$27,372,864</u>	<u>\$29,511,394</u>	17%	(7)%
Net assets					
Invested in capital assets (<i>net of debt</i>)	\$115,710,911	\$112,308,547	\$106,986,213	3%	5%
Restricted net assets	6,589,435	4,902,692	6,314,098	34%	(22)%
Unrestricted net assets	28,654,152	27,763,004	29,465,022	3%	(6)%
Total net assets	<u>\$150,954,498</u>	<u>\$144,974,243</u>	<u>\$142,765,333</u>	4%	2%

Statement of Revenue and Expenses and Changes in Net Assets. This statement measures the success of the District's over-all operations for the fiscal year and shows cost recovery from user fees and other charges. For three consecutive fiscal years, FYE 2010, FYE 2009, and FYE 2008, the District's revenues exceeded its expenses by \$6.0 million, \$2.2 million and \$5.4 million, respectively. This positive outcome for three consecutive years was due to: the District's efforts in aggressively securing additional funding through grants and subgrants; maintaining a stable revenue base 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 \$30.0 million, an increase of \$4.5 million, or 18.0%, over the prior year results. Total revenue for FYE 2009 and FYE 2008 were \$25.5 million and \$24.7 million, respectively. The steady increases in revenues over the years reflect the District's commitment to finding new funding sources and revenue streams to offset both its operating and capital expenditures.

The increase in total revenue, excluding capital contributions, was a net result of increases in Operating Revenue of \$5.7 million partially offset by a decrease of non-operating revenue of \$1.2 million for this fiscal year compared to the prior year. The majority of increases in operating revenue were due to higher service charges and work for others revenue; the decreases in non-operating Revenue were primarily due to lower interest income and property tax revenue. Capital contributions increased by \$1.7 million, or 39%. This net increase is primarily due to additional grant revenue of \$3.0 million compared to the prior year, partially offset by decreases in capacity charges/connection fees of \$1.3 million.

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For the Fiscal Year Ended June 30, 2010 and 2009

FYE 2010 service charges remained strong at \$20.9 million, or 7% higher than FYE 2009 at \$19.5 million, which was 4% higher than FYE 2008. The current year increase is primarily due to a 4.6% Board approved rate increase in wastewater sewer service charges and increases in recycled water service charges due to service expansion. Sewer service charges fund wastewater operations and maintenance, capital asset and capital asset replacement projects. Likewise, recycled water service charges fund recycled water operations, capital asset and capital asset replacements projects. The moderate increase in wastewater sewer service rates is consistent with the rate adjustment approved by the District Board in June 2009. Recycled water service charges increased due to the expansion of recycled water operations. Upon the completion of the Pittsburg recycled water project in September 2010, recycled water is now being utilized to irrigate approximately 500 acres of the City of Pittsburg's city hall, municipal golf course and parks. The recycled water rates are consistent with the recycled water rate established and approved by the District Board in December 2009. The recycled water rate was reviewed and recommended for approval by the recycled water Technical Advisory Committee composed of Calpine, the Cities of Pittsburg and Antioch, and District staff.

Other operating revenue for FYE 2010 totaled \$6.9 million, an increase of about \$4.3 million or 167%, primarily due to additional Work for Others Revenue earned. The increases in work for others revenue is a direct result of the District taking lead in a number of collaborative multi-agency projects including the Recycled Water projects for Antioch and Pittsburg. In FYE 2009, other operating revenue was \$2.6 million, an increase of \$1.0 million over FYE 2008.

Property taxes and assessments for FYE 2010 totaled \$1.6 million, a \$0.5 million or 24% decrease from the previous fiscal year due to continued decline in property values. For FYE 2009 compared to FYE 2008, property taxes were \$2.1 million and \$2.3 million, respectively. Interest income in the current fiscal year was \$0.6 million, decreasing by \$0.7 million or 55% compared to prior year, due to historically low interest rates. This is consistent with the continuing downward trend in the short-term interest rate market and over-all declines in the economy since 2008. For FYE 2009 compared to FYE 2008, interest income was \$1.3 million and \$2.0 million, respectively.

Capital facilities capacity charges (CFCC)/connections fees are one-time charges assessed to connect to the District's waste water system. CFCC totaled \$1.4 million for FYE 2010, a decrease of 48% or \$1.3 million from the prior year due to decreases in the number of new commercial and residential connections. This year's total equivalent residential unit (ERU) additions were 306 compared to 591 new ERU last fiscal year. The drop in this year's ERU is consistent with the decline experienced in the building industry and is substantially below the budget assumption of 400 ERUs. For FYE 2009 and FYE 2008, CFCC revenue was \$2.7 million and \$4.2 million, respectively. Other capital contributions are primarily from cash contributions received from intergovernmental funding sources. For FYE 2010, the District received other capital contributions in the form of Federal grants (\$2.4 million), State grants (\$2.3 million) and subgrants (\$0.2 million) totaling \$4.8 million. This represents an increase of \$3.0 million or 166% compared to the prior fiscal year. Other capital contributions for FYE 2009 and 2008 were \$1.8 million and \$0.8 million, respectively.

Expenses. Combined expenses for FYE 2010 ended totaled \$30.2 million, an increase of \$2.4 million, or 9%, from prior year. Total expenses for FYE 2009 and FYE 2008 were \$27.8 million and \$24.3 million, respectively. For the current fiscal year, the increase in combined expenses was a result of moderate increases in salaries and benefits plus increases in depreciation and amortization, as well as other non-operating expenses, partially offset by decreases in chemicals and utilities, other operating expenses, and interest expense.

Salaries and benefits totaled \$12.8 million, a minimal increase of \$0.2 million or 1% compared to the prior fiscal year primarily due to a combination of the following factors: merit and cost-of-living

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adjustments (2.0%) increase, and retirement expenses partially offset by modest cost savings in health benefits costs. As of June 30, 2010, the District was fully staffed based on Board approved positions. Total salaries and benefits combined for FYE 2009 and FYE 2008 were \$12.7 million and \$10.2 million, respectively.

For FYE 2010, depreciation expense totaled \$6.4 million, increasing by \$1.5 million or 32% due to the District's continued growth and large investment in capital assets (see capital assets section). In addition, the estimated useful life of a number of fixed assets was shortened based on actual useful life experience. Depreciation expense for prior FYE 2009 and FYE 2008 were \$4.9 million and \$4.6 million, respectively. Other non-operating expense totaled \$1.6 million this fiscal year primarily due to recognition of the loss on disposition of fixed assets. Combined chemicals and utilities costs ended at \$2.7 million, a decrease of \$0.4 million or 14% compared to last fiscal year. Chemical cost savings was primarily due to lesser chemical usage related to improved chlorination systems and efficiencies in bio-solids operations as well as and lower costs for some chemicals including Sodium Hypochlorite and Liquid Aluminum Sulfate. Utilities decreased due to lower electricity and natural gas usage compared to last year. Decreased electricity usage was primarily due to the co-generating facility running more efficiently on methane gas, and lower natural gas usage was achieved due to increased methane production. Total chemicals and utilities combined for FYE 2009 and FYE 2008 were \$3.1 million and \$3.0 million, respectively. Compared to the prior fiscal year, other operating expense and interest expense decreased by 6% and 8%, respectively. Other operating expenses decreased partly due to a combination of cost containment efforts by District staff and operational efficiencies achieved this year compared to the prior year. Interest expense decreased directly due to the downward trend in the interest rate market and lower outstanding debt owed.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Service charges	\$20,867,811	\$19,481,408	\$18,767,238	7%	4%
Other operating revenues	6,858,859	2,567,079	1,603,698	167%	60%
Property Taxes	1,636,278	2,149,559	2,289,634	(24)%	(6)%
Interest income	568,784	1,256,487	2,033,255	(55)%	(38)%
Other non-operating revenues	35,773	35,773	35,818	0%	0%
Total revenues	<u>\$29,967,505</u>	<u>\$25,490,306</u>	<u>\$24,729,643</u>	18%	3%
Salaries and benefits	\$12,806,405	\$12,650,803	\$10,156,386	1%	25%
Chemicals and utilities	2,713,909	3,141,901	3,006,081	(14)%	5%
Depreciation and amortization	6,411,047	4,868,388	4,609,696	32%	6%
Other operating expenses	5,318,723	5,686,985	5,044,407	(6)%	13%
Interest expense	1,301,793	1,414,645	1,490,729	(8)%	(5)%
Other non-operating expenses	1,644,748			100%	
Total expenses	<u>\$30,196,625</u>	<u>\$27,762,722</u>	<u>\$24,307,299</u>	9%	14%
Income (loss) before capital contributions	(\$229,120)	(\$2,272,416)	\$422,344	(90)%	(638)%
Add: Capacity charges - connection fees	1,393,342	2,672,259	4,175,396	(48)%	(36)%
Add: Other capital contributions	4,816,033	1,809,067	780,538	166%	132%
Changes in net assets	<u>\$5,980,255</u>	<u>\$2,208,910</u>	<u>\$5,378,278</u>	171%	(59)%
Net assets - beginning of year	\$144,974,243	\$142,765,333	\$137,387,055	2%	4%
Net assets - end of year	<u><u>\$150,954,498</u></u>	<u><u>\$144,974,243</u></u>	<u><u>\$142,765,333</u></u>	4%	2%

DELTA DIABLO SANITATION DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
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CAPITAL ASSETS AND DEBT

Capital Assets. Capital assets (net of depreciation) for FYE 2010, FYE 2009, and FYE 2008 totaled \$141.0 million, \$134.6 million and \$131.3 million, respectively. In the current year, the total increase in capital assets (net of depreciation) of \$6.4 million (5%) was a net result of decreases in construction in progress of \$15.1 million (45%) coupled with \$21.5 million of net capital asset additions due to the completion of many large projects this year compared to the prior year. Net capital assets additions of \$21.5 million for this fiscal year were primarily due to the treatment and collection systems (\$29.3 million additions minus disposals of \$5.9 million), partially offset by a net decrease in machinery and equipment of \$2.1 million due to disposals, plus net change in accumulated depreciation of \$0.2 million. Construction in progress totaled \$18.5 million for the fiscal year consistent with the District's implementation of its Capital Improvement Program (CIP). The CIP document identifies the District's capital needs with its corresponding sources of revenue over a five-year horizon and is updated annually.

Capital Assets (net of accumulated depreciation)

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Land	\$2,719,251	\$2,719,251	\$2,719,251	0%	0%
Construction in progress	18,509,862	33,623,525	27,452,900	(45)%	22%
Treatment & collection system (<i>net</i>)	118,609,091	96,987,847	99,843,041	22%	(3)%
Equipment (<i>net</i>)	1,172,864	1,325,469	1,314,597	(12)%	1%
Total capital assets (<i>net</i>)	<u>\$141,011,068</u>	<u>\$134,656,092</u>	<u>\$131,329,789</u>	5%	3%

Each year, the District continues to expand and improve its waste water and collection systems to comply with environmental regulations as well as minimize sewer overflow and/or any disruptions of service. Major treatment and collection systems purchased and/or constructed by the District (96% of \$29.3 million) for the fiscal year include:

Project Description	Acquisition Costs
Bridgehead Phase III	\$13,264,068
Pittsburg Recycled Water Project	3,991,818
Digester No. 2 Rehabilitation	2,370,135
Digester No. 3 Rehabilitation	2,218,348
Willow Pass San Marcos Pipeline	1,579,919
Digester Gas Piping Improvements	1,416,548
Bay Point Collection System Rehabilitation	1,390,921
Delta HHW Facility Expansion	660,024
Digester Gas Filtration System Improvements	612,348
Digester No. 3 Rehabilitation	607,122
Total	\$28,111,251

This year's major construction in progress projects (89% of the \$18.5 million) include:

Project Description	Acquisition Costs
Antioch Recycled Water Project	\$10,584,278
Activated Sludge Process Improvement	4,604,888
Conveyance System Cathodic Protection Repl.	651,164
Aeration System Improvements	646,049
Total	\$16,486,380

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

Debt. Total net debt obligation for FYE 2010, FYE 2009, and FYE 2008 totaled \$25.3 million, \$22.3 million and \$24.3 million, respectively. In FYE 2009, the District permanently retired and fully paid the 2001 COP and 2000 Revenue bonds. The District did not issue any new bonded debt this fiscal year. The 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. In the current year, principal payments of \$1.2 million *plus* net decrease of 1991 accreted interest of \$1.0 million *minus* the new California State Revolving Fund (SRF) loan of \$5.2 million increased outstanding debt by \$3.0 million (13%) for the fiscal year. The new SRF loan was entered into by the District on November 2009 for the purposes of funding its Antioch recycled water project. The total amount of the loan is \$6.4 million with almost zero percent interest (0.077%) and a 20 years payment term. As of FYE 2010, \$5.2 million has been drawn from this obligation.

In February 2009, the District requested a debt rating review due to potential for new debt within two years. The District rating was upgraded by Standard & Poors (S&P) from AA- to AA. S&P views the outlook for this AA rating as stable and reflects the District's very strong financial performance. This is evidenced by the continued strong debt service coverage and strong liquidity; competitive rates; manageable capital plan with expansion costs historically financed from connection fees; and a stable and diverse customer base.

Long-term Debt (net of discount)

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
1991 Certificates of participation (COP)	\$5,544,521	\$6,569,950	\$6,569,950	(16)%	0%
1991 COP accreted interest	13,156,240	14,176,870	12,868,393	(7)%	10%
2001 COP (<i>net</i>)			1,495,031		(100)%
2000 Revenue bonds			1,625,000		(100)%
1997 State revolving fund loan (SRF)	1,412,922	1,600,725	1,785,202		(10)%
2010 SRF loan	5,186,474			100%	
Total long-term debt (<i>net</i>)	<u>\$25,300,157</u>	<u>\$22,347,545</u>	<u>\$24,343,576</u>	13%	(8)%

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

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

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MANAGEMENT'S DISCUSSION & ANALYSIS
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Next Year's Budget and Rates. The District has a three-year operating budget cycle, with the latest for FY2009/10 through FY2011/12. The District annually conducts reviews and updates the budget document. The District board adopts budget appropriations annually in June for the upcoming fiscal year starting in July. FY2010/11 is the second of the current three-year operating budget cycle.

In June 2010, the Board adopted the FYE 2011 operating budget with a total budget expense appropriation of \$38.5 million and the District Board authorized an inter-fund loan of up to \$3.5 million from the Wastewater Capital Asset Replacement (WW CAR) fund to Wastewater Expansion Fund. Additionally, a fund transfer of up to \$3.2 million from WW CAR fund to the Wastewater Capital Asset fund was authorized by the Board.

As noted earlier, the District has a five-year Capital Improvement Program which is updated annually. In May 2010 the Board adopted the FY2010/11–2014/15 CIP. The 2010 update of the capital plan includes additional projects over the next five years in support of the District's five core programs: Wastewater, Recycled Water, Household Hazardous Waste, Street Sweeping and Bay Point Collection. Due to large capital projects planned for wastewater capital asset and expansion funds within the next five years, additional funding may be provided to these funds through short-term inter-fund borrowing from the Capital Asset Replacement Fund. The District is looking into potential external debt financing within two years. As a policy, the District Board approves any inter-fund borrowing and/or external debt financing.

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

In November 2009, the District Board approved the selection of an OPEB trust fund provider Public Agency Retirement Services (PARS), and consequently, in July 2010 approved the District's OPEB funding policy. The District participates in a qualified, irrevocable trust fund that is established solely for the purpose of paying OPEB obligations. As of FYE 2010, the irrevocable trust fund has a balance of \$0.7 million. At the July 14, 2010 Board meeting, 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 2010; that these contributions will increase to 2% of salaries in July 2011 and to 3% of salaries in July 2012. This means that approximately 25% of the total OPEB obligation will be funded by the employees of the District. 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. For additional information on OPEB, see accompanying notes to the financial statements No.9 – OPEB.

The District's collection of sewer service charges is done through the County Property Tax Roll. Actual increases to these charges, if any, are considered by the Board annually based on updated cash flow projections. At the April 14, 2010 Board meeting, the Board reviewed and on June 9, 2010 subsequently approved a 4.8% rate increase for sewer service charges for FY 2010/11.

REQUESTS FOR INFORMATION

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

DELTA DIABLO SANITATION DISTRICT
 STATEMENTS OF NET ASSETS
 JUNE 30, 2010
 With Comparative Totals as of June 30, 2009

ASSETS

	2010	2009
CURRENT ASSETS		
Cash (Note 2)	\$3,926,690	\$1,931,128
Investments (Note 2)	17,576,070	25,329,418
Accounts receivable	5,527,882	1,905,102
Interest receivable	17,661	49,183
Notes receivable, current portion (Note 3)	4,394,113	11,969
Employee computer loans receivable, current portion (Note 4)	19,504	15,261
Materials and supplies (Note 1. H.)	736,715	608,141
Prepaid expenses	72,084	179,099
Total current assets	32,270,719	30,029,301
NON-CURRENT ASSETS		
RESTRICTED CASH AND INVESTMENTS (Note 2I)		
Escrow	1,405,711	409,549
Debt service	1,766,518	1,757,127
Capital expansion	4,180,792	2,736,016
Total restricted cash and investments	7,353,021	4,902,692
DESIGNATED CASH AND INVESTMENTS (Note 2J)		
Operations and maintenance rate stabilization	600,000	600,000
Other Post-Employment Benefits		765,845
Related employee benefit costs	962,561	757,965
Insurance	500,000	500,000
Total designated cash and investments	2,062,561	2,623,810
OTHER ASSETS		
Notes receivable, less current portion (Note 3)	189,591	126,536
Employee computer loans receivable, less current portion (Note 4)	13,703	8,676
Total other assets	203,294	135,212
CAPITAL ASSETS:		
Capital assets, non-depreciable (Note 5)	21,229,113	36,342,776
Depreciable capital assets, net of Accumulated depreciation (Note 5)	119,781,955	98,313,316
Total capital assets, net	141,011,068	134,656,092
Total noncurrent assets	150,629,944	142,317,806
TOTAL ASSETS	182,900,663	172,347,107

(Continued)

See accompanying notes to financial statements

DELTA DIABLO SANITATION DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2010
With Comparative Totals as of June 30, 2009

LIABILITIES

CURRENT LIABILITIES	2010	2009
Accounts payable	\$1,927,528	\$1,461,672
Accrued payroll and benefits	1,543,333	1,301,620
Deposits payable	1,415,210	419,049
Unearned revenue	210,526	273,606
Compensated absences - due within one year (Note 6)	422,782	459,171
Current portion of long-term debt (Note 7)	3,506,189	3,502,803
Property tax refund - due within one year	15,561	
Accrued interest payable	12,738	14,431
Total current liabilities	9,053,867	7,432,352
 LONG-TERM LIABILITIES		
Long-term debt, net of current portion (Note 7)		
Certificates of participation	4,583,569	5,544,521
State revolving fund loans	6,408,207	1,412,922
Accreted interest	10,802,192	11,887,299
Total long-term debt, net of current portion	21,793,968	18,844,742
Compensated absences -net of current portion (Note 6)	283,158	220,877
Property tax refund, net of current portion	46,682	
Net OPEB obligation (Note 9)	768,490	874,893
Total long-term liabilities	22,892,298	17,650,941
TOTAL LIABILITIES	31,946,165	27,372,864
 NET ASSETS (Note 11)		
Invested in capital assets, net of related debt	115,710,911	112,308,547
Restricted for debt service	1,766,518	1,757,127
Restricted for capital projects	4,822,917	3,145,565
Unrestricted	28,654,152	27,763,004
TOTAL NET ASSETS	\$150,954,498	\$144,974,243

See accompanying notes to financial statements

DELTA DIABLO SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010
With Comparative Totals for the Year Ended June 30, 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Service charges	\$20,867,811	\$19,481,408
Discharge permits	193,942	196,375
Household hazardous waste operating fees	430,508	408,039
Miscellaneous	309,303	336,606
Work for others	<u>5,925,106</u>	<u>1,626,059</u>
Total operating revenues	<u>27,726,670</u>	<u>22,048,487</u>
OPERATING EXPENSES		
Salaries and benefits	12,806,405	12,650,803
Chemicals	1,217,860	1,590,920
Depreciation	6,411,047	4,868,388
Office expense	746,547	694,827
Operating expense	617,005	600,903
Outside service and maintenance	3,703,991	4,162,236
Travel and meetings	88,321	97,120
Utilities	1,496,049	1,550,981
Other	<u>162,859</u>	<u>131,899</u>
Total operating expenses	<u>27,250,084</u>	<u>26,348,077</u>
OPERATING INCOME (LOSS)	<u>476,586</u>	<u>(4,299,590)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(1,301,793)	(1,414,645)
Interest income	568,784	1,256,487
Capital facilities capacity charges (Note 1.I.)	1,393,342	2,672,259
Lease revenue (Note 13)	35,773	35,773
State grants	2,254,643	909,797
Federal grants	2,402,617	
Subgrants	158,773	899,270
Gain (Loss) on disposition of capital assets	(1,644,748)	
Property taxes	<u>1,636,278</u>	<u>2,149,559</u>
Total nonoperating revenues (expenses), net	<u>5,503,669</u>	<u>6,508,500</u>
NET INCOME	5,980,255	2,208,910
NET ASSETS, BEGINNING OF YEAR	<u>144,974,243</u>	<u>142,765,333</u>
NET ASSETS, END OF YEAR	<u>\$150,954,498</u>	<u>\$144,974,243</u>

See accompanying notes to financial statements

DELTA DIABLO SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010
With Comparative Totals for the Year Ended June 30, 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$24,103,890	\$21,086,448
Payments to employees	(12,645,203)	(11,513,772)
Payments to utilities	(1,496,049)	(1,550,981)
Payments to contractual/professional services	(2,707,830)	(4,592,723)
Payments to suppliers	(3,068,827)	(2,369,300)
Other receipts (payments)	(314,260)	(307,687)
	<u>3,871,721</u>	<u>751,985</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Taxes	1,636,278	2,149,559
State, federal and sub grants	4,816,033	1,809,067
Other	(9,270)	716
	<u>6,443,041</u>	<u>3,959,342</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets net of adjustments for physical inventory	(14,417,205)	(8,181,064)
Proceeds from sale of capital assets	6,432	
Proceeds from SRF loan	5,186,474	
Interest paid on long-term debt	(1,303,486)	(405,770)
Payment of long-term debt	(1,148,755)	(1,014,937)
Connection fees	1,393,342	2,672,259
	<u>(10,283,198)</u>	<u>(10,200,177)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption and acquisition of investments, net	1,191,209	3,154,216
Receipts on note	136,710	81,842
Interest received on investments	600,306	1,291,040
Interest received on lease	35,773	35,773
	<u>1,963,998</u>	<u>4,562,871</u>
NET INCREASE IN CASH	1,995,562	(925,979)
Cash, beginning of year	<u>1,931,128</u>	<u>2,857,107</u>
Cash, end of year	<u><u>\$3,926,690</u></u>	<u><u>\$1,931,128</u></u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating income (loss)	\$476,586	(\$4,299,590)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	6,411,047	4,868,388
Change in assets and liabilities:		
Receivables, net	(3,622,780)	(962,039)
Materials and supplies	(128,574)	(148,285)
Prepaid expenses	107,015	(88,902)
Accounts payable and accrued expenses	(465,856)	754,537
Accrued payroll and related expenses	267,605	262,138
Deposits payable	996,161	(430,487)
Unearned revenue	(63,080)	(78,668)
Net OPEB Obligation	(106,403)	874,893
	<u>\$3,871,721</u>	<u>\$751,985</u>
SCHEDULE OF NON CASH ACTIVITY		
Loss on disposal of capital assets	(\$1,651,180)	
Accreted interest on bonds	<u>(1,085,107)</u>	<u>(\$3,270,665)</u>

See accompanying notes to financial statements

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

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

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

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

B. Reporting Entity

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

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

C. Basis of Accounting

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

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

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

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Budgets and Budgetary Accounting

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

E. Use of Estimates

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

F. Compensated Absences

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

G. Cash and Cash Equivalents

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

H. Materials and Supplies

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

I. Revenues – Capital Facilities Capacity Charges

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

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

J. *Reclassification*

For the year ended June 30, 2010, 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 2009 presentation.

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

GASB Statement No. 51 – In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is effective for financial statements with reporting periods beginning after June 15, 2009. The intangible assets are included in the District's capital assets.

GASB Statement No. 53 – In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is intended to improve how State and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and accrual basis of accounting. The guidance in this statement also addresses hedge accounting requirement and is effective for financial statements with reporting periods beginning after June 15, 2009, with earlier application encouraged. This statement did not have an impact on the District's financial statements.

GASB Statement No. 58- In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.” This statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. This statement did not have an impact on the District's financial statements.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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.

	<u>2010</u>	<u>2009</u>
Cash, available for District operations	\$3,926,690	\$1,931,128
Investments, available for District operations	17,576,070	25,329,418
Restricted cash and investments	7,353,021	4,902,692
Designated cash and investments	<u>2,062,561</u>	<u>2,623,810</u>
 Total Cash and Investments	 <u>\$30,918,342</u>	 <u>\$34,787,048</u>

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

	<u>2010</u>	<u>2009</u>
Cash on hand	\$800	\$800
Deposits with County	490,392	1,352,274
Deposits with financial institutions	1,202,454	422,692
Investments	27,818,985	32,601,733
Restricted cash in escrow	<u>1,405,711</u>	<u>409,549</u>
 Total Cash and Investments	 <u>\$30,918,342</u>	 <u>\$34,787,048</u>

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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:

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 SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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		

E. Interest Rate Risk

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

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call dates, at June 30, 2010:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
<i>Held by District:</i>				
U.S. Government Agency Obligations	\$5,706,475	\$1,206,375	\$1,223,250	\$8,136,100
Corporate Notes		2,066,006	1,241,751	3,307,757
California Local Agency Investment Fund	12,375,565			12,375,565
Money Market Mutual Funds (U.S. Securities)	2,233,045			2,233,045
<i>Held by Trustees:</i>				
U.S. Government Agency Obligations		1,722,580		1,722,580
Money Market Mutual Funds (U.S. Securities)	43,938			43,938
Total Investments	<u>\$20,359,023</u>	<u>\$4,994,961</u>	<u>\$2,465,001</u>	<u>\$27,818,985</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, 2010, these investments matured in an average of 203 days.

Money market mutual funds are available for withdrawal on demand and at June 30, 2010, matured in an average of 28 days.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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, 2010 for each investment type as provided by Moody's investment rating system:

Investment Type	Aaa	Total
<i>Held by District:</i>		
U.S. Government Agency Obligations	\$8,136,100	\$8,136,100
Corporate Notes	3,307,757	3,307,757
Money Market Mutual Funds (U.S. Securities)	2,233,045	2,233,045
<i>Held by Trustees:</i>		
U.S. Government Agencies	1,722,580	1,722,580
Money Market Mutual Funds (U.S. Securities)	43,938	43,938
Totals	<u>\$15,443,420</u>	15,443,420
<i>Not rated:</i>		
California Local Agency Investment Fund		<u>12,375,565</u>
Total Investments		<u>\$27,818,985</u>

G. Concentration Risk

At June 30, 2010, 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	\$5,721,376
Federal National Mortgage Association	Federal agency securities	2,365,590
General Electric Corporation	Corporate Note	2,038,415

H. Restricted Cash and Investments

The District has the following restrictions on cash and investments:

Restricted for Escrow – The District has restricted investments in an escrow account for various construction projects in the amount of \$1,405,711.

Restricted for Debt Service - The District has moneys held by Wells Fargo Bank as trustee, pledged to the payment or security of its outstanding bond issues. All transactions associated with debt service are administered by the Bank. The cash and investment amounts are \$43,938 and \$1,722,580 respectively, totaling \$1,766,518.

Restricted for Capital Expansion - The District has restricted investments for the acquisition, construction and reconstruction of the wastewater collection, conveyance, treatment and disposal facilities of the District in the amount of \$4,180,792.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 2 – CASH AND INVESTMENTS (Continued)

I. Board Designated Investments

The District has the following designations on investments as of June 30, 2010:

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

Designated for Related Employee Benefits Costs - The District has designated investments in accordance with employee labor contracts for the purpose of paying future benefits in connection with salary continuation in the amount \$124,814.

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. CCCERA's actuary will re-determine the District's termination liability using the triennial experience analysis as of December 31, 2009 and any transfers, if needed, will be done in accordance with the termination agreement. 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 cost increases. As of June 30, 2010, the amount designated by the District for Employee Benefit Costs is \$837,747. As of June 30, 2010, the total amount for designated related employee benefits costs is \$962,561.

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

NOTE 3 – NOTES RECEIVABLE

Recycled Water (RW) – The District and the City of Antioch (City) entered into a Joint Powers Agreement on November 18, 2003, for the purpose of development and operation of a "Recycled Water Program" (the Project). Under the provisions of the agreement, the Project is to be jointly funded (50/50) by the District and the City. The District is authorized to design, construct, own, operate and regulate the facilities. To date, \$10,584,278 has been spent on the Project. The District recognized a Notes Receivable in the amount of \$4,391,064 from the City of Antioch for their net share of the costs for this project as of June 30, 2010. It is expected that the City of Antioch will fund its share of the project costs primarily from the SRF loan secured by the District for this project. See Note 13C for additional information.

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.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 3 – NOTES RECEIVABLE (Continued)

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

Notes receivable at June 30 consisted of the following:

	<u>2010</u>	<u>2009</u>
RWF		
City of Antioch	\$4,391,064	
HHW		
Ironhouse Sanitary District	118,151	\$81,238
Contra Costa County	<u>74,489</u>	<u>57,267</u>
Total Notes Receivable	4,583,704	138,505
Less: Current Portion	<u>(4,394,113)</u>	<u>(11,969)</u>
Long-Term Portion	<u>\$189,591</u>	<u>\$126,536</u>

NOTE 4 – EMPLOYEE COMPUTER LOANS RECEIVABLE

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

	<u>2010</u>	<u>2009</u>
Employee computer loans	\$33,207	\$23,937
Less: current portion	<u>(19,504)</u>	<u>(15,261)</u>
Long-term portion	<u>\$13,703</u>	<u>\$8,676</u>

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.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 5 – CAPITAL ASSETS (Continued)

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

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

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

	Balance at June 30, 2009	Additions	Transfers	Retirements	Balance at June 30, 2010
Capital assets not being depreciated:					
Land	\$2,719,251				\$2,719,251
Construction in Progress	33,623,525	\$14,222,729	(\$29,336,392)		18,509,862
Total capital assets not being depreciated	<u>36,342,776</u>	<u>14,222,729</u>	<u>(29,336,392)</u>		<u>21,229,113</u>
Capital assets being depreciated:					
Treatment & Collection System	165,343,328		29,336,392	(\$5,899,383)	188,780,337
Equipment	5,917,875	194,476		(2,304,653)	3,807,698
Total capital assets being depreciated:	<u>171,261,203</u>	<u>194,476</u>	<u>29,336,392</u>	<u>(8,204,036)</u>	<u>192,588,035</u>
Less accumulated depreciation for:					
Treatment & Collection System	68,355,483	6,083,288		(4,267,525)	70,171,246
Equipment	4,592,404	327,759		(2,285,329)	2,634,834
Total accumulated depreciation	<u>72,947,887</u>	<u>\$6,411,047</u>		<u>(\$6,552,854)</u>	<u>72,806,080</u>
Net capital assets being depreciated	<u>98,313,316</u>				<u>119,781,955</u>
Total Capital Assets, net	<u>\$134,656,092</u>				<u>\$141,011,068</u>

Construction in progress represents construction of treatment and collection facilities.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 6 – ACCRUED COMPENSATED ABSENCES

Accumulated unpaid vacation and compensatory time have been accrued at June 30, 2010 in the amount of \$705,940. Accumulated unpaid sick pay is not included in the amount for accrued benefits due to the contingent nature of any future payment.

The changes in compensated absences were as follows at June 30, 2010:

Beginning Balance	\$680,048
Additions	814,469
Payments	<u>(788,577)</u>
Ending Balance	<u>\$705,940</u>
Current Portion	<u>\$422,782</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, 2010 was \$110,320, and is included in the balance of Accrued Payroll and Benefits on the Statements of Net Assets.

NOTE 7 – LONG-TERM DEBT

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010	Amount due within one year
1991 Certificates of Participation Wastewater Facilities Expansion Project, 4.6-6.25%, due 12/01/2016	\$17,454,950	\$6,569,950		\$1,025,429	\$5,544,521	\$960,952
Accreted interest on 1991 Certificates		14,176,870	\$1,268,941	2,289,571	13,156,240	2,354,048
1997 State Revolving Fund Loan 1.80%, due 12/31/2016	3,611,046	1,600,725		187,803	1,412,922	191,189
2010 State Revolving Fund Loan .077%, due 8/30/2030	6,405,136		<u>5,186,474</u>		<u>5,186,474</u>	
Total Long-Term Debt		<u>22,347,545</u>	<u>\$6,455,415</u>	<u>\$3,502,803</u>	25,300,157	<u>\$3,506,189</u>
Less:						
Amount due within one year		<u>(3,502,803)</u>			<u>(3,506,189)</u>	
Total Long-Term Debt, net		<u>\$18,844,742</u>			<u>\$21,793,968</u>	

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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 \$6,405,136 with a stated interest rate of .077% per annum. As of June 30, 2010, the District has only drawn down \$5,186,474 of the available funds. Principal payments will be due annually beginning on August 30, 2011 through the fiscal year 2031. The principal and interest payments will be payable from revenue the District receives from the City of Antioch.

E. Debt Service Requirements

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

For The Year Ending June 30	Principal	Interest	Total
2011	\$3,506,189	\$25,475	\$3,531,664
2012	3,470,837	317,252	3,788,089
2013	3,284,752	503,337	3,788,089
2014	3,106,283	681,806	3,788,089
2015	2,946,259	846,830	3,793,089
2016 - 2020	6,123,394	2,237,059	8,360,453
2021 - 2025	1,298,102	9,023	1,307,125
2026 - 2030	1,303,107	4,018	1,307,125
2031	261,234	201	261,435
Total payments due	<u>\$25,300,157</u>	<u>\$4,625,001</u>	<u>\$29,925,158</u>

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 8 – RETIREMENT PLAN

A. Pension Plan

All District employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District’s employees participate in the Miscellaneous (non-safety) Employee Plans. Benefit provisions under both Plans are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CALPERS; the District must contribute these amounts. The Plans’ provisions and benefits in effect at June 30, 2010, are summarized as follows:

	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement Age	50
Monthly benefits, as a % of annual salary	2.0%-2.7%
Required employee contribution rates	8.0%
Required employer contribution rates	24.54%

The District’s labor contracts require it to pay employee contributions as well as its own.

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

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

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 8 – RETIREMENT PLAN (Continued)

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

Annual Pension Cost (APC)	Contribution Amount	Percent APC Contributed	Contribution Rate
2010	\$1,788,421	100%	24.54%
2009	1,693,936	100%	24.43%
2008	1,384,863	100%	24.08%

CALPERS’ latest available actuarial value (which differs from market value) and funding progress are set forth below at their actuarial valuation of June 30, 2007.

Miscellaneous Plan - State Pool:

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2007	\$1,627,025,950	\$1,362,059,317	\$264,966,633	83.71%	\$376,292,121	70.42%
2006	1,280,157,040	1,069,546,974	210,610,066	83.55%	304,898,179	69.08%
2005	872,346,612	729,556,809	142,789,803	83.63%	203,995,039	70.00%

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

Actuarially required contributions were \$1,788,421 \$1,693,936 and \$1,384,863 for fiscal years 2010, 2009 and 2008 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.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

During fiscal year 2009, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior year's financial statements. Required disclosures are presented below.

A. *Plan Description and Funding Policy*

The District provides postretirement health care benefits to eligible retirees in accordance with Memorandums of Understanding (M.O.U.s) with employee groups. In accordance with the M.O.U.s, the District contracts with CalPERS to provide post-retirement health benefits through the CalPERS PEMHCA program, which provides for vesting at age 50 with five (5) years of service. The District implemented the California State Vesting Program for Retiree Health Care as regulated by Government Code 22893 by resolution (8/2008). All District employees hired after the implementation date (01/01/2009), will be enrolled in the State's Vesting Program, which starts fifty (50%) medical benefit at age 50 with 10 years of service, increasing by 5% for each additional year of service to 100% with 20 years of service. The District contribution for eligible retirees (and spouses) is continued at the rate in effect each year. The cost of the benefits provided by the plan is currently being pre-funded in an irrevocable trust by the District. The District's plans to fund the benefits provided under the plan over a 30-year horizon, with minimal impacts to District rate payers. Upon adoption of the annual fiscal year operating budget, the District will transfer all funds budgeted for retiree medical premiums to its OPEB Trust Fund. Additional annual funding of the annual required contributions (ARC) will be set by the District Board from all or part of the following sources, in the order listed below:

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

At June 30, 2010, 25 retirees were receiving benefits.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

B. Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2008 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.0% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health care cost trend rates from 4.5% to 10.1% 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.

Funding Progress and Funded Status

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

Net OPEB obligation (asset) at June 30, 2008		\$0
Annual required contribution (ARC) and Annual OPEB cost - fiscal 2008/2009	1,059,000	
Less contributions made during fiscal year:		
District's portion of current year premiums paid	<u>(184,107)</u>	
Increase in net OPEB obligations		<u>874,893</u>
Net OPEB obligation at June 30, 2009		874,893
Annual required contributions (ARC)	849,000	
Interest on Net OPEB Obligation	61,000	
Adjustments to ARC	<u>(51,000)</u>	
Annual OPEB cost - fiscal 2009/2010		859,000
Less contributions made during fiscal year:		
Contributions made to PARS	(767,307)	
District's portion of current year premiums paid	<u>(198,096)</u>	
Total contribution to OPEB		<u>(965,403)</u>
(Decrease) in net OPEB obligation		<u>(106,403)</u>
Net OPEB obligation at June 30, 2010		<u><u>\$768,490</u></u>

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The actuarial accrued liability (AAL) representing the present value of future benefits as of June 30, 2010 amounted to \$6,817,000 per the actuarial study dated March 2, 2010.

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, 2010	\$859,000	\$106,403	12%	\$768,490
June 30, 2009	1,059,000	184,107	17%	874,893

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the June 30, 2008 actuarial study, updated in March 2010, is 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]
3/2/2010	\$770,000	\$6,817,000	\$6,047,000	11.30%	\$7,109,000	85.06%
6/30/2008	0	8,844,000	8,844,000	0%	6,668,000	132.63%

Note: Three years of funding progress data will be shown as it becomes available.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. The District joined together with other entities to form the California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program for 60 member entities. The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The District pays an annual premium to CSRMA for its general liability, property damage, workers compensation insurance and automobile coverage.

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

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

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 10 – RISK MANAGEMENT (Continued)

The following is a summary of the insurance policies in force carried by the Authority as of June 30, 2010:

Type of Coverage	Limits	Deductibles
General Liability	\$15,750,000	\$100,000
Excess General Liability	25,750,000	15,740,000
Employment Practices Liability	15,750,000	25,000
Worker's Compensation	750,000	None
Excess Worker's Compensation Liability	Statutory Limit	750,000
Special Form Property	127,113,142	25,000
Public Entity Physical Damage	567,582	1,000/2,000
Commercial Crime - Employee Dishonesty, Forgery or Alteration	1,000,000	5,000
Commercial Crime - Theft, Disappearance, Destruction, or Computer Fraud	500,000	5,000
Fiduciary Liability	1,000,000	1,000
Pollution Legal Liability	1,000,000	5,000
Differences in Conditions - Earthquake/Flood	5,000,000	50,000

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

NOTE 11 – NET ASSETS

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

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

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

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

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 12 – STATE OF CALIFORNIA PROPOSITION 1 A SECURITIZATION

Proposition 1A was passed by California voters in 2004 to ensure local property tax and sales tax revenues remain with local government thereby safeguarding funding for public safety, health, libraries, parks, and other local services. Provisions can only be suspended if the Governor declares a fiscal necessity and two-thirds of the Legislature concurs.

Under the provisions of Proposition 1A and as part of the fiscal year 2009-10 budget package passed by the California State legislature on July 28, 2009, the State of California borrowed 8% of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fees, triple flip in lieu sales taxes, and supplemental property taxes, apportioned to the District. The State is required to repay the \$163,376 it borrowed from the District, plus interest, by June 30, 2013.

Authorized with the 2009-10 State budget package was the Proposition 1A Securitization Program (Program), administered by the California Statewide Communities Development Authority (“California Communities”), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities. Under the Program, the participating cities receive cash equal to their share of State borrowings and forgo interest they otherwise would have received from the State on the unpaid borrowings. The District is a participant in the Program.

California Communities simultaneously purchased the Proposition 1A receivables from the District and other participants, and issued bonds to provide participants with proceeds to be remitted in two equal installments due on January 15, 2010 and May 3, 2010. All costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. As of June 30, 2010, the District received both installments due under the Program and recorded them as property taxes in the same manner as if the State had not exercised its rights under Proposition 1A. Since sales proceeds to the District equal the book value of State borrowings no gain or loss was incurred.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. Lease Revenue

Delta Energy Center, LLC (DEC) and Calpine Corporation entered into an operating lease with the District, effective December 11, 2002, to lease real property located at 2600 Pittsburg-Antioch Highway, in Pittsburg, for a cooling tower site. The base rent for the leased land started at \$32,500 per year and is set to escalate every five years based on changes in the Consumer Price Index. The current rate is \$35,773 per year. The area leased is 260 feet by 50 feet, on land that is not targeted for District improvements. The agreement terminates May 31, 2050. Minimum future rentals total \$1,430,920 at June 30, 2010. The lessee, DEC, retains an option to terminate the lease agreement by providing a thirty-day written notice to the District. The total remaining minimum future rental payments are as follows:

<u>For the Year Ending June 30</u>	<u>Minimum Future</u>
2011	\$35,773
2012	35,773
2013	35,773
2014	35,773
2015	35,773
2016 - 2020	178,865
2021 - 2025	178,865
2026 - 2030	178,865
2031 - 2035	178,865
2036 - 2040	178,865
2041 - 2045	178,865
2046 - 2050	178,865

B. Joint Power Agreement with City of Pittsburg

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

The funding sources for the Project include approximately \$3,095,989 costs from the City of Pittsburg Redevelopment Agency. The District has secured for its share of the project costs funding as follows: \$1,259,250 Prop 50, Chapter 7, WRF grant award from a State Water Resources Control Board (SWRCB), \$1,000,000 Prop 50, Chapter 8, IRWMP sub-grant award from the SWRCB through Contra Costa Water District and a \$1,750,000 grant from the U.S. Department of Interior, Bureau of Reclamation. When the Federal appropriations are received it is expected to be repaid to wastewater ad valorem taxes, which originally provided the advance funding for this project. As of June 30, 2010, the District has remitted \$3,909,248 to the City of Pittsburg for Project costs.

**DELTA DIABLO SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

C. *Joint Power Agreement with City of Antioch*

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

The Project is estimated to cost \$12,400,000, with each agency’s share estimated at \$6,200,000. The District plans to fund its share of the Project costs through the following funding sources: \$205,136 State Revolving Fund Loan (SRF), \$2,564,069 Prop 50, Chapter 7, WRFP grant award from a State Water Resources Control Board (SWRCB), \$200,000 Prop 50, Chapter 8, IRWMP sub-grant award from the SWRCB through Contra Costa Water District, two grants totaling \$2,250,000 from the U.S. Department of Interior, Bureau of Reclamation and approximately \$980,795 District funding from wastewater ad valorem taxes. The wastewater ad valorem taxes are to be repaid if Federal and or State Appropriations applied for are received. To date, a total of \$6,405,136 SRF loan with .077% interest has been secured by the District for this project. The City of Antioch will fund its share of the project costs primarily from the SRF loan, which is estimated at \$6,200,000. The City will reimburse the District for about 97% of the SRF loan payments. As of June 30, 2010, the District has incurred expenditures of \$10,584,278.

D. *Purchase Commitments*

The District has a number of purchase commitments for ongoing operating and capital projects that involves multi-year contracts. Purchase commitments related to these multi-year contracts are approximately \$8,534,275 and \$7,220,045 as of June 30, 2010 and June 30, 2009, respectively.

SUPPLEMENTARY INFORMATION

DELTA DIABLO SANITATION DISTRICT
 SUPPLEMENTARY SCHEDULE OF NET ASSETS - PROPRIETARY FUND TYPE
 ENTERPRISE FUNDS
 JUNE 30, 2010

	Waste Water ^(A)	Waste Water Expansion ^(B)	Recycled Water Facility	Hazardous Waste
ASSETS				
CURRENT ASSETS:				
Cash	\$2,086,033			\$183,948
Investments	15,444,001		\$1,141,412	
Accounts receivable	617,871	\$69,865	4,703,385	128,641
Interfund receivable	10,568,290			
Interest receivable	10,480	3,831	1,128	
Current portion of notes receivable			4,391,064	3,049
Current portion of employee computer loans receivable	19,504			
Inventory	668,516		68,199	
Prepaid expenses	56,980		15,104	
Total current assets	<u>29,471,675</u>	<u>73,696</u>	<u>10,320,292</u>	<u>315,638</u>
NON-CURRENT ASSETS:				
RESTRICTED CASH AND INVESTMENTS				
Escrow	567,578	74,547	763,586	
Debt service		1,766,518		
Capital expansion		4,180,792		
Total restricted cash and investments	<u>567,578</u>	<u>6,021,857</u>	<u>763,586</u>	
DESIGNATED CASH AND INVESTMENTS				
Operations and maintenance rate stabilization	600,000			
Related Employee Benefits Costs	962,561			
Insurance	500,000			
Total designated cash and investments	<u>2,062,561</u>			
CAPITAL ASSETS:				
Capital assets, non depreciable	9,208,214	1,354,159	10,666,716	
Capital assets, net of accumulated depreciation	92,817,827		23,743,044	809,615
Total capital assets, net	<u>102,026,041</u>	<u>1,354,159</u>	<u>34,409,760</u>	<u>809,615</u>
OTHER ASSETS				
Notes receivable less current portion				189,591
Employee notes receivable less current portion	13,703			
Total other assets	<u>13,703</u>			<u>189,591</u>
Total Noncurrent Assets	<u>104,669,883</u>	<u>7,376,016</u>	<u>35,173,346</u>	<u>999,206</u>
TOTAL ASSETS	<u><u>134,141,558</u></u>	<u><u>7,449,712</u></u>	<u><u>45,493,638</u></u>	<u><u>1,314,844</u></u>
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	1,206,413	186,000	329,705	120,863
Accrued payroll and benefits	1,487,409	3,086	31,346	6,589
Interfund payable		7,223,270	3,345,020	
Deposits payable	577,077	74,547	763,586	
Deferred revenue	17,886			192,640
Compensated absences - due within one year	422,782			
Current portion of long-term debt		3,506,189		
Property tax refund - due within one year	15,561			
Accrued interest payable		12,738		
Total current liabilities	<u>3,727,128</u>	<u>11,005,830</u>	<u>4,469,657</u>	<u>320,092</u>
NON-CURRENT LIABILITIES:				
Long-term debt, net of current portion:				
Certificates of participation		4,583,569		
Loans payable		1,221,733	5,186,474	
Accreted Interest		10,802,192		
Compensated absences - due in more than one year	283,158			
Property tax refund, net of current portion	46,682			
Net OPEB obligation	768,490			
Total long-term liabilities	<u>1,098,330</u>	<u>16,607,494</u>	<u>5,186,474</u>	
TOTAL LIABILITIES	<u>4,825,458</u>	<u>27,613,324</u>	<u>9,656,131</u>	<u>320,092</u>
NET ASSETS				
Invested in capital assets, net of related debt	102,026,041	(18,759,524)	29,223,286	809,615
Restricted for debt service		1,766,518		
Restricted for capital projects	567,578	4,255,339		
Unrestricted	26,722,481	(7,425,945)	6,614,221	185,137
TOTAL NET ASSETS (DEFICITS)	<u><u>\$129,316,100</u></u>	<u><u>(\$20,163,612)</u></u>	<u><u>\$35,837,507</u></u>	<u><u>\$994,752</u></u>

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

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

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

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

Street Sweeping ^(C)	Bay Point ^(D)	Total
\$518,754	\$1,137,955	\$3,926,690
99,484	891,173	17,576,070
\$51	8,069	5,527,882
		10,568,290
412	1,810	17,661
		4,394,113
		19,504
		736,715
		72,084
<u>618,701</u>	<u>2,039,007</u>	<u>42,839,009</u>
		1,405,711
		1,766,518
		<u>4,180,792</u>
		<u>7,353,021</u>
		600,000
		962,561
		<u>500,000</u>
		<u>2,062,561</u>
	24	21,229,113
	<u>2,411,469</u>	<u>119,781,955</u>
	<u>2,411,493</u>	<u>141,011,068</u>
		189,591
		<u>13,703</u>
		<u>203,294</u>
	<u>2,411,493</u>	<u>150,629,944</u>
<u>618,701</u>	<u>4,450,500</u>	<u>193,468,953</u>
77,714	6,833	1,927,528
600	14,303	1,543,333
		10,568,290
		1,415,210
		210,526
		422,782
		3,506,189
		15,561
		<u>12,738</u>
<u>78,314</u>	<u>21,136</u>	<u>19,622,157</u>
		4,583,569
		6,408,207
		10,802,192
		283,158
		46,682
		<u>768,490</u>
		<u>22,892,298</u>
<u>78,314</u>	<u>21,136</u>	<u>42,514,455</u>
	2,411,493	115,710,911
		1,766,518
		4,822,917
<u>540,387</u>	<u>2,017,871</u>	<u>28,654,152</u>
<u>\$540,387</u>	<u>\$4,429,364</u>	<u>\$150,954,498</u>

DELTA DIABLO SANITATION DISTRICT
 SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUND TYPE
 ENTERPRISE FUNDS
 JUNE 30, 2010

	Waste Water ^(A)	Waste Water Expansion ^(B)	Recycled Water Facility	Household Hazardous Waste
OPERATING REVENUES				
Service charges	\$16,547,731		\$2,938,583	
Discharge permits	193,942			
Household hazardous waste operating fees				\$430,508
Miscellaneous	309,303			
Work for others	1,450,217		4,401,064	71,992
Total operating revenues	18,501,193		7,339,647	502,500
OPERATING EXPENSES				
Salaries and benefits	11,958,635	\$15,999	364,203	147,163
Chemicals	655,885		561,968	
Depreciation	5,779,346		540,795	11,788
Office expense	592,687	51	131,385	15,910
Operating expense	492,024		105,351	16,604
Outside services and maintenance	2,438,932	85,850	352,810	377,449
Travel and meetings	82,657		2,435	1,608
Utilities	1,124,909		370,775	365
Other	105,531			
Total operating expenses	23,230,606	101,900	2,429,722	570,887
OPERATING INCOME (LOSS)	(4,729,413)	(101,900)	4,909,925	(68,387)
NONOPERATING REVENUES (EXPENSES)				
Interest expense		(1,301,793)		
Interest income	470,042	75,316	10,028	4,790
Capital facilities capacity charges		1,393,342		
Lease revenue	35,773			
State grants			2,254,643	
Federal grants			2,402,617	
Subgrants			158,773	
Gain (Loss) on disposition of capital assets	(1,633,167)			
Property taxes	1,565,979	70,299		
Total nonoperating revenues	438,627	237,164	4,826,061	4,790
NET INCOME (LOSS) BEFORE TRANSFERS	(4,290,786)	135,264	9,735,986	(63,597)
Transfers In	26,287,292	761,820	(2,302,617)	(281,101)
Transfers (Out)	(8,374,585)	(15,075,560)	(1,015,249)	
Total transfers in (out)	17,912,707	(14,313,740)	(3,317,866)	(281,101)
NET INCOME (LOSS) AFTER TRANSFERS	13,621,921	(14,178,476)	6,418,120	(344,698)
NET ASSETS (DEFICITS), BEGINNING OF YEAR	115,694,179	(5,985,136)	29,419,387	1,339,450
NET ASSETS (DEFICITS), END OF YEAR	\$129,316,100	(\$20,163,612)	\$35,837,507	\$994,752

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

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

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

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

Street Sweeping ^(C)	Bay Point ^(D)	Total
\$587,756	\$793,741	\$20,867,811
		193,942
		430,508
		309,303
	1,833	5,925,106
<u>587,756</u>	<u>795,574</u>	<u>27,726,670</u>
10,128	310,277	12,806,405
	7	1,217,860
	79,118	6,411,047
	6,514	746,547
	3,026	617,005
457,315	(8,365)	3,703,991
	1,621	88,321
		1,496,049
	57,328	162,859
<u>467,443</u>	<u>449,526</u>	<u>27,250,084</u>
<u>120,313</u>	<u>346,048</u>	<u>476,586</u>
		(1,301,793)
1,351	7,257	568,784
		1,393,342
		35,773
		2,254,643
		2,402,617
		158,773
	(11,581)	(1,644,748)
		1,636,278
<u>1,351</u>	<u>(4,324)</u>	<u>5,503,669</u>
<u>121,664</u>	<u>341,724</u>	<u>5,980,255</u>
		24,465,394
		(24,465,394)
<u>121,664</u>	<u>341,724</u>	<u>5,980,255</u>
<u>418,723</u>	<u>4,087,640</u>	<u>144,974,243</u>
<u>\$540,387</u>	<u>\$4,429,364</u>	<u>\$150,954,498</u>

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