

CASTRO VALLEY SANITARY DISTRICT

Financial Statements

As of and for the Years Ended June 30, 2009 and 2008

(With Supplementary Information and Independent Auditors' Report Thereon)

CASTRO VALLEY SANITARY DISTRICT
CASTRO VALLEY, CALIFORNIA

Board of Directors at June 30, 2009

Board Members

Timothy McGowan
Daniel M. Akagi
Harry Francis
Dennis M. Waespi
Ralph Johnson

Title

President
President Pro Tem
Secretary
Secretary Pro Tem
Member

General Manager at June 30, 2009

Roland P. Williams, Jr.

CASTRO VALLEY SANITARY DISTRICT

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Cropper Accountancy Corporation

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Castro Valley Sanitary District
Castro Valley, California

We have audited the accompanying financial statements of the Castro Valley Sanitary District as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Castro Valley Sanitary District as of June 30, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office for special districts.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


CROPPER ACCOUNTANCY CORPORATION

October 14, 2009

CASTRO VALLEY SANITARY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) is an overview of the Castro Valley Sanitary District's financial activities summarizing changes in the District's basic financial statements for the fiscal year ended June 30, 2009. The MD&A serves as an introduction to the audited financial statements and should be read in conjunction with the audited financial statements.

Financial Highlights

- Operating revenue increased from \$5,332,316 in 2008 to \$6,188,956 in 2009, an increase of \$856,640 or 16.1%.
- Non-operating revenue was \$1,395,291 in 2008, and \$977,549 in 2009, a decrease of \$(417,742) or (29.9)%.
- Operating expenses increased from \$5,883,589 in 2008 to \$6,124,754 during 2009, an increase of \$241,165 or 4.1%. Non-operating expenses decreased from \$20,253 in 2008 to \$(8,951) in 2009, an increase of \$(29,204) or (144.2)%.
- The District's net assets were \$35,340,223 and \$36,689,125 in 2008 and 2009, respectively; this is an increase of \$1,348,902 or 3.8%.
- Capital Contributions of connection fees and donated assets paid during 2009 were \$298,200, a decrease of \$(626,226), or (67.7)%. This revenue source fluctuates based on market conditions.
- District investment in capital assets after accumulated depreciation was \$23,453,937 an increase of \$821,793 or 3.6% from the prior year.

Required Financial Statements

The financial statements report information about the District using the accrual basis of accounting similar to those found in the private sector. Revenues are recorded when earned and expenses recorded at the time liabilities are incurred, regardless of when cash is received or paid. The District's financial report includes three basic financial statements: The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with assets less the liabilities reported as net assets. The statement provides information and the nature and the amounts of investments in resources (assets) and obligations (liabilities). It also provides one way to measure the financial health of the District by providing the basis for evaluating the District's capital structure and assessing the liquidity and financial flexibility of the District. There are three components that comprise Net Assets: Invested in Capital Assets, Restricted and Unrestricted.

The Statement of Revenues, Expenses and Changes in Net Assets present the results of the District's operation over the course of the fiscal year and information as to how the net assets changed during the year. All of the fiscal year's revenues and expenses are accounted for in this statement.

The final required financial statement is the Statement of Cash Flows. This statement provides information about the District's cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. The statement shows what the sources and uses of cash were and what the change in the cash balance was during the fiscal year.

Financial Analysis

As noted previously, net assets may serve over time as a useful indicator of the District's financial position. A condensed summary of the District's total net assets at June 30, 2009, with comparative 2008 data is shown below:

Table A-1
Condensed Summary of Net Assets

	2009	2008	Increase or (Decrease)	Percentage Increase or (Decrease)
Current Assets	\$ 10,400,192	\$ 9,807,843	\$ 592,349	6.0%
Capital Assets, net	23,453,937	22,632,143	821,794	3.6%
Other Assets - EBDA Equity	3,798,873	3,806,069	(7,196)	-0.2%
Total Assets	<u>\$ 37,653,002</u>	<u>\$ 36,246,055</u>	<u>\$ 1,406,947</u>	3.9%
Current Liabilities	\$ 732,685	\$ 648,952	\$ 83,733	12.9%
Noncurrent Liabilities	231,192	256,880	(25,688)	-10.0%
Total Liabilities	<u>\$ 963,877</u>	<u>\$ 905,832</u>	<u>\$ 58,045</u>	6.4%
Net Assets				
Invested in Capital Assets	\$ 23,453,937	\$ 22,632,143	\$ 821,794	3.6%
Invested in EBDA	3,798,873	3,806,069	(7,196)	-0.2%
Restricted	5,115,680	5,668,415	(552,735)	-9.8%
Unrestricted	<u>4,320,635</u>	<u>3,233,596</u>	<u>1,087,039</u>	33.6%
Total Net Assets	<u><u>\$ 36,689,125</u></u>	<u><u>\$ 35,340,223</u></u>	<u><u>\$ 1,348,902</u></u>	3.8%

The largest portion of the District's net assets, \$23,453,937 or 63.9% at June 30, 2009 is invested in capital assets, which includes land, administrative headquarters, collection system subsurface lines and lift stations, as well as a 25% ownership of the Castro Valley/Oro Loma Sanitary District's Wastewater Treatment Facility.

The restricted net assets at June 30, 2009 total \$5,115,680 or 13.9%, which include externally imposed stipulations on how they may be used. The majority is restricted for future expansion, \$4,256,262 or 11.6% at June 30, 2009. Restricted for residential and business recycling programs at June 30, 2009 totaled \$367,348 or 1.00%. Capital Assets are reported net of accumulated depreciation.

Table A-2
Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2009	2008	Amount of Increase or (Decrease)	Percentage Increase or (Decrease)
Operating Revenues	\$ 6,188,956	\$ 5,332,316	\$ 856,640	16.1%
Non-Operating Revenues	977,549	1,395,291	(417,742)	-29.9%
Capital Contributions-Connection Fees	<u>298,200</u>	<u>924,426</u>	<u>(626,226)</u>	-67.7%
Total Revenues	<u>\$ 7,464,705</u>	<u>\$ 7,652,033</u>	<u>\$ (187,328)</u>	-2.4%
Operating Expenses	\$ 6,124,754	\$ 5,883,589	\$ 241,165	4.1%
Non-Operating Expenses	<u>(8,951)</u>	<u>20,253</u>	<u>\$ (29,204)</u>	-144.2%
Total Expenses	<u>\$ 6,115,803</u>	<u>\$ 5,903,842</u>	<u>\$ 211,961</u>	3.6%
Increase (Decrease) in Net Assets	\$ 1,348,902	\$ 1,748,191	\$ (399,289)	-22.8%
Net Assets – Beginning of Year	<u>\$ 35,340,223</u>	<u>\$ 33,592,032</u>	<u>\$ 1,748,191</u>	5.2%
Net Assets – End of Year	<u>\$ 36,689,125</u>	<u>\$ 35,340,223</u>	<u>\$ 1,348,902</u>	3.8%

While the Summary of Net Assets (Table A-1) present the financial position of the District at the end of the fiscal year, the Statements of Revenues, Expenses, and Changes in Net Assets (Table A-2) shows the results of operations during the course of the year, with prior year comparable data.

Compared to 2008, operating revenues increased in 2009 by \$856,640, or 16.1%. Operating revenue is comprised of sewer service user charges, contract administration fees, inspection fees and other sewer related fees such as plan review, overtime inspection, administrative fees and truck hauled waste.

Non-operating revenue, which includes grants and connection fees, decreased by \$(417,742), or (29.9)% in 2009.

Capital Assets and Debt Administration

**Table A-3
Condensed Summary of Capital Assets**

	2009	2008	Amount of Increase or (Decrease)	Percentage Increase or (Decrease)
Land	\$ 337,168	\$ 337,168	\$ -	0.0%
Construction in Progress	2,082,721	610,435	1,472,286	241.2%
Subsurface Lines	13,416,975	13,416,975	-	0.0%
Wastewater Collection Facilities	1,275,368	1,270,198	5,170	0.4%
Wastewater Treatment Facilities	16,985,058	16,842,198	142,860	0.8%
General Plant & Admin. Facilities	<u>2,901,563</u>	<u>2,589,437</u>	<u>312,126</u>	12.1%
Total Capital Assets	<u>\$ 36,998,853</u>	<u>\$ 35,066,411</u>	<u>\$ 1,932,442</u>	5.5%
Less Accumulated Depreciation:				
Subsurface Lines	4,535,238	4,356,413	178,825	4.1%
Wastewater Collection Facilities	571,119	515,798	55,321	10.7%
Wastewater Treatment Facilities	7,100,289	6,368,389	731,900	11.5%
General Plant & Admin. Facilities	<u>1,338,270</u>	<u>1,193,667</u>	<u>144,603</u>	12.1%
Total Accumulated Depreciation	<u>\$ 13,544,916</u>	<u>\$ 12,434,267</u>	<u>\$ 1,110,649</u>	8.9%
Total Net Capital Assets	<u>\$ 23,453,937</u>	<u>\$ 22,632,144</u>	<u>\$ 821,793</u>	3.6%

The above table (Table A-3) summarizes the changes in capital assets, net of depreciation. These changes and additional information regarding the District's capital assets are detailed in Note 7 to the financial statements. Construction in Progress increased in 2009 by \$1,472,286 or 241.2% which was due to Treatment Plant Projects and Sewer System Master Plan Projects.

Rates and Other Economic Factors

The District maintains the 2nd lowest sewer service charge rates in Alameda County. The District currently has no long-term debt and has a long history of pay-as-you-go financing for capital acquisitions. The District maintains reasonable reserves to ensure compliance with this philosophy. During the year ended June 30, 2005 the District adopted a reserve policy that established reserve levels. The District reviews all financial policies at least annually.

The District receives a portion of State Revenue Share and changes in the State budget impact the District's revenue. A total shift of \$758,894 during fiscal years 2004/05 and 2005/06 resulted in a decrease of revenue to the District. This tax shift ended in 2006/07. The amount received in 2009 was \$331,556. The District found it prudent to increase sewer service user fees by \$11 for the year 2008/09, even with this increase the District has the second lowest residential sewer service fee in Alameda County, at \$221 per year. The average Alameda County sewer service fee is \$423 and the statewide average is \$406.

Financial Contact at the District

This financial report provides a general overview of the District's finances for our rate payers and creditors and demonstrates accountability of its funding sources. If you should have any questions, or require additional information, contact Roland Williams, General Manager/Treasurer at 21040 Marshall Street, Castro Valley, CA 94546 or (510) 537-0757, or email, Roland@cvsan.org.

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BASIC FINANCIAL STATEMENTS

CASTRO VALLEY SANITARY DISTRICT

Statements of Net Assets

June 30, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash	\$ 344,664	\$ 366,945
Investments - Local Agency Investment Fund	9,307,755	8,692,333
Accounts receivable	401,848	242,870
Interest receivable	35,877	67,501
Due from other government agencies	310,048	438,194
Total current assets	<u>10,400,192</u>	<u>9,807,843</u>
Noncurrent Assets:		
Property, Plant and Equipment:		
Capital assets	36,998,853	35,066,411
Less: Accumulated depreciation	<u>(13,544,916)</u>	<u>(12,434,268)</u>
Net property, plant, and equipment	<u>23,453,937</u>	<u>22,632,143</u>
Other Assets:		
Equity in East Bay Dischargers Authority (EBDA) - Joint Powers	<u>3,798,873</u>	<u>3,806,069</u>
TOTAL ASSETS	<u>\$ 37,653,002</u>	<u>\$ 36,246,055</u>

LIABILITIES

Current Liabilities:		
Accounts payable	\$ 558,380	\$ 511,385
Accrued payroll liabilities	148,617	111,879
Current portion of deferred revenue	<u>25,688</u>	<u>25,688</u>
Total current liabilities	732,685	648,952
Long Term Liabilities:		
Deferred revenue	<u>231,192</u>	<u>256,880</u>
Total liabilities	<u>963,877</u>	<u>905,832</u>

NET ASSETS

Invested in capital assets	23,453,937	22,632,143
Invested in East Bay Dischargers Authority (EBDA) - Joint Powers	3,798,873	3,806,069
Restricted for:		
Measure D - solid waste	234,492	414,479
Non-residential recycling	65,957	65,957
Collection systems	4,256,262	4,382,503
Administrative Facilities	142,214	152,061
Source Reduce Recycle	66,899	77,901
Treatment	349,856	575,514
Unrestricted	<u>4,320,635</u>	<u>3,233,596</u>
Total net assets	<u>36,689,125</u>	<u>35,340,223</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 37,653,002</u>	<u>\$ 36,246,055</u>

The accompanying notes are an integral part of these financial statements.

CASTRO VALLEY SANITARY DISTRICT
 Statements of Revenues, Expenses and Changes in Net Assets
 for the Years Ended
 June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Service charges and fees	\$ 5,438,591	\$ 4,694,597
Permits and inspection fees	16,398	33,082
Contract administration fees	699,697	598,802
Other services	34,270	5,835
Total operating revenues	6,188,956	5,332,316
Operating Expenses:		
Wastewater collection	2,082,469	1,978,188
Wastewater treatment	1,891,469	1,796,913
Wastewater disposal	233,693	262,826
Solid Waste disposal	364,419	275,742
Solid Waste Diversion - Measure D	294,715	357,699
Administration and General	1,257,989	1,212,221
Total operating expenses	6,124,754	5,883,589
Operating income (loss)	64,202	(551,273)
Non-operating Revenues:		
Aid from other governmental agencies	331,556	327,478
Annexation fees	200	150
Property taxes	313,074	633,049
Interest income	235,365	363,059
Other	97,354	71,555
Total non-operating revenue	977,549	1,395,291
Non-operating Expenses:		
Decrease (increase) in equity of EBDA joint powers	7,196	22,224
Other expenses	(16,147)	(1,971)
Total non-operating expenses	(8,951)	20,253
Income before contributions	1,050,702	823,765
Capital contributions - donated assets	-	277,198
Capital contributions - connection fees	298,200	647,228
Change in net assets	1,348,902	1,748,191
NET ASSETS - Beginning of Year	35,340,223	33,592,032
NET ASSETS - End of year	\$ 36,689,125	\$ 35,340,223

The accompanying notes are an integral part of these financial statements.

CASTRO VALLEY SANITARY DISTRICT

Statements of Cash Flows
for the Years Ended
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from sewer customers	\$ 5,489,260	\$ 4,546,908
Contract administrative fees	699,697	598,802
Payments for employee services and benefits	(1,685,174)	(1,482,428)
Payments for services and supplies	<u>(3,021,402)</u>	<u>(3,209,303)</u>
Net cash used in operating activities	<u>1,482,381</u>	<u>453,979</u>
 Cash flows from noncapital financing activities:		
Aid from other governmental agencies	331,556	327,478
Property taxes	313,074	633,049
Connection fees and donated assets	298,200	924,426
Other revenue and expenses	<u>113,700</u>	<u>73,676</u>
Net cash provided by non-capital financing activities	<u>1,056,530</u>	<u>1,958,629</u>
 Cash flows from capital and related financing activities:		
Construction and fixed assets additions	<u>(2,212,759)</u>	<u>(1,025,121)</u>
 Cash flows from investing activities:		
Interest received	<u>266,989</u>	<u>379,906</u>
Net increase in cash and cash equivalents	593,141	1,767,393
Cash and cash equivalents - Beginning of year	<u>9,059,278</u>	<u>7,291,885</u>
Cash and cash equivalents - End of year	<u>\$ 9,652,419</u>	<u>\$ 9,059,278</u>
 Financial statement presentation:		
Cash	\$ 344,664	\$ 366,945
State of California Local Agency Investment Fund	<u>9,307,755</u>	<u>8,692,333</u>
Cash and cash equivalents	<u>\$ 9,652,419</u>	<u>\$ 9,059,278</u>
 Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ 64,202	\$ (551,273)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	1,110,649	1,113,391
(Increase) decrease in:		
Accounts receivable	(30,832)	(147,689)
Construction in progress written-off	280,317	97,096
(Increase) decrease in:		
Accounts payable	46,995	(54,576)
Accrued payroll liabilities	36,738	22,718
Deferred revenue	<u>(25,688)</u>	<u>(25,688)</u>
Net cash used in operating activities	<u>\$ 1,482,381</u>	<u>\$ 453,979</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Description of District and Summary of Significant Accounting Policies

Reporting Entity

Castro Valley Sanitary District (the "District") is a California Special District, formed on July 25, 1939. The District operates a wastewater collection facility serving the Castro Valley Area. Revenues are derived principally from sewer service charges collected from residential and non-residential users within the District.

For financial reporting purposes, in conformity with the Governmental Accounting Standards Board (GASB) Codification Section 2100, defining the governmental reporting entity, the District includes all funds that are controlled by or dependent on the Board of Directors of the District. Since no other entities are controlled by or rely upon the District, the reporting entity consists solely of the District. Fiduciary funds are not included in the accompanying financial statements.

The District's share of a Joint Powers Authority (East Bay Dischargers Authority) is reflected based upon the District's proportionate share of the net equity of the Authority. (See Note 3)

Measurement Focus and Basis of Accounting

The basic financial statements (the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows) report information on the enterprise activities of the District. These basic financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments* and related standards.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities are included on the Statements of Net Assets. The Statements of Revenues, Expenses and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations and include fees charged to customers for wastewater, solid waste and recycling services. Operating expenses include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Assets.

**CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - Description of District and Summary of Significant Accounting Policies (continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first based upon their intended purpose, then unrestricted resources as they are needed.

The District applies all applicable GASB pronouncements in accounting and reporting for proprietary operations, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict with GASB pronouncements: Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Search Bulletins (ARB) of the Committee on Accounting Procedure.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with maturities of three months or less when purchased. Included therein are cash on hand, demand deposits with financial institutions, deposits with Alameda County, and the State of California Local Agency Investment Fund (LAIF). Such marketable securities and deposits are carried at fair value using quoted market prices.

LAIF is an investment pool managed by the State of California. LAIF has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing such investments. In addition, such structured notes and asset-backed securities are subject to market interest rate risk as a result of potential changes in interest rates.

Allowance for Doubtful Accounts

The District recognizes bad debt expense relating to receivables, when it is probable that the accounts will be uncollectible. As of June 30, 2009 and 2008, management believes no allowance for doubtful accounts is necessary due to historical experience and the nature of the receivables.

Property, Plant, and Equipment

Property, Plant, and Equipment acquired from District funds are recorded at cost. Contributed assets, consisting primarily of subsurface sewer lines and certain pump stations, are recorded at estimated fair value on the date contributed. Major additions and betterments are capitalized, and payments for repairs and maintenance are expensed.

Depreciation on capital assets in service, excluding land, is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital projects are subject to depreciation when completed and placed in service. The ranges of estimated useful lives of capital assets are as follows:

Buildings	40 years
Wastewater collection facilities	30 years
Subsurface lines	75 years
Furniture and equipment	5-10 years

CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Description of District and Summary of Significant Accounting Policies (continued)

Other Assets

The District reflects its share of the East Bay Dischargers Authority and its share of net assets (principally net capital assets) on the Statements of Net Assets based on the equity method.

Compensated Absences

Vested or accumulated vacation and compensatory time is recorded as an expense and liability as benefits accrue to employees. No liability is recorded for accumulating rights to receive sick pay benefits since they are not vested. No sick leave is payable upon termination. Accumulated sick leave is paid upon retirement up to a maximum of one month's wages. The accrual for compensated absences of \$98,486 and \$74,636 as of June 30, 2009 and 2008, respectively, is included within accrued payroll liabilities on the Statements of Net Assets.

Deferred Revenue

One developer deposited \$513,760 with the District to offset pump station maintenance costs that will be incurred over the following 20 years. These amounts have been deferred and are recognized as revenue ratably over the 20-year period. Current year amortization is \$25,688. The unamortized portion is \$256,880 as of June 30, 2009.

Net Assets

In the accompanying Statements of Net Assets, net assets are classified according to the following categories:

Invested in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, attributed to the acquisition, construction, or improvement of capital assets. There is no related debt outstanding as of June 30, 2009 and 2008.

Invested in East Bay Dischargers Authority – This amount consists of the District's share of net assets (which consists principally of capital assets, net of accumulated depreciation) in the East Bay Dischargers Authority.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments. Restricted net assets presented in the accompanying Statements of Net Assets include funds for use by Measure D projects, expansion, and nonresidential recycling. Connection and annexation fees are reserved for expansion efforts. The nonresidential recycling net assets are restricted by a grant received to establish a business-recycling program in the future.

Unrestricted Net Assets – This amount consists of all net assets that do not meet the definition of "invested in capital assets", "invested in East Bay Dischargers Authority", or "restricted net assets".

**CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 1 - Description of District and Summary of Significant Accounting Policies (continued)

Revenue – Connection Fees

Connection fees represent a one-time contribution of resources to the District imposed on contractors and developers for the purpose of financing growth-related construction and improvements. Connection fees are recognized as a contribution in the Statements of Revenues, Expenses and Changes in Net Assets. They are placed in collection system reserves and are restricted for future capacity expansion projects.

Allocation of Indirect Costs

Certain indirect costs are allocated between cost centers and administrative expenses in the Statement of Revenues, Expenses and Changes in Net Assets. Those costs are allocated among the appropriate functions based upon the proportion of time spent or space used.

Rate Charge Calendar

The District places sewer service charges on the County of Alameda property tax rolls as a method of collection from property owners. The District's calendar for the fiscal year ended June 30, 2009 was as follows:

March 1	Lien/levy date
November 1	Due date for first installment (50%)
February 1	Due date for final installment (50%)
December 10	Delinquent for first installment
April 10	Delinquent for final installment

The County collects the taxes (including penalties and interest) from the property owners and remits the sewer fees to the District. The District receives the majority of its funds during December and April, and collections of delinquent amounts are paid to the District intermittently during the year.

Reclassifications

Certain reclassifications to prior year comparative amounts may have been made in order to be consistent with the current year presentation.

Use of Estimates

The preparation of 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.

CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Description of District and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In April 2004, GASB issued GASBS No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement provides guidance on how to report OPEB plans that qualify as a trust or agency funds or as fiduciary component units of either a participating employer, a plan sponsor, a public employee retirement system (CalPERS, or other administering entity). The requirements for this Statement are effective for fiscal periods after December 15, 2006 provided GASB 45 is also implemented. The District is implementing this standard in fiscal 2010 in conjunction with GASB 45.

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This Statement requires local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. The Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employees.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. Current financial reporting practices fail to measure or recognize the cost of OPEB during the periods when employees render the services, or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

The District is required to implement the provisions of this Statement for the fiscal year ended June 30, 2010 (effective for fiscal years beginning after December 31, 2007). See Note 6 for additional information.

In November of 2006, GASB issued GASBS No. 49, *Accounting and Financial Reporting Pollution Remediation Obligations*. The District is required to implement the provisions of this Statement for the fiscal year ended June 30, 2009 (effective for periods beginning after December 15, 2007). This standard addresses current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution *prevention* or *control* obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as a landfill closure. This Statement may have a material effect on the financial statements of the District.

CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Description of District and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

In June of 2007, GASB issued GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*. The District is required to implement the provisions of this Statement for the fiscal year ending June 30, 2010 (effective for periods beginning after June 15, 2009; for governments classified as phase 2 under GASBS No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ended after June 30, 1980). This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. The implementation of the provisions of this standard may have a material effect on the financial statements of the District.

In November of 2007, GASB issued GASBS No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The District is required to implement the provisions of this Statement for the fiscal year ending June 30, 2009 (effective for periods beginning after June 15, 2008). This Statement requires endowments to report their land and other real estate investments at fair value and governments to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes—pension and other postemployment benefit plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans—however, report land and other real estate held as investments at their fair value. We do not expect this Statement to have a material effect on the financial statements of the District.

In June of 2008, GASB issued GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement requires governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, can also expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), forward contracts, and future contracts. The District is required to implement the provisions of the Statement for the fiscal year ending June 30, 2010 (effective for periods beginning after June 15, 2009), and should allow users of the financial statements to more fully understand the District’s resources available to provide services.

CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Description of District and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

In March of 2009, GASB issued GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the reserved component of fund balance in favor of a restricted classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance classification approach in this Statement will require governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. The clarifications of the governmental fund type definitions will reduce uncertainty about which resources can or should be reported in the respective fund types. The District is required to implement the provisions of the Statement for the fiscal year ending June 30, 2011 (effective for periods beginning after June 30, 2010). The District is an Enterprise Fund and not a Governmental Fund Type. As such, this statement does not directly apply to the District.

In March of 2009, GASB issued GASBS No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement will improve financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source. This Statement will make it easier for preparers of state and local government financial statements to identify and apply all relevant guidance. This Statement will not result in a change in current practice or have a material effect on the financial statements of the District.

In March of 2009, GASB issued GASBS No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This effort is important from the perspective of bringing the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. This Statement will not result in a change in current practice, or have a material effect on the financial statements of the District.

**CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 2 - Cash and Cash Equivalents and Investments

Cash and cash equivalents at June 30 are detailed as follows:

Cash	2009	2008
Cash on hand	\$ 250	\$ 250
Cash in bank (not rated)	260,879	285,006
Cash with Alameda County (not rated)	<u>83,535</u>	<u>81,689</u>
	<u>344,664</u>	<u>366,945</u>
Cash Equivalents		
State of California Local Agency Investment Fund (not rated)	<u>9,307,755</u>	<u>8,692,333</u>
Total cash and cash equivalents	<u>\$ 9,652,419</u>	<u>\$ 9,059,278</u>

The California Government Code requires California banks and savings and loan associations to secure a Public Agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of deposits. California law also allows financial institutions to secure Public Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the Public Agency's total deposit. The District may waive collateral requirements for cash deposits that are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The District, however, has not waived the collateralization requirements.

The Local Agency Investment Fund (LAIF) is an external investment pool sponsored by the State of California, primarily invested in structured notes and asset-backed securities. The Fund is a voluntary program created by statute as an investment alternative for California local governments and special districts. The Fund is administered by the California State Treasurer. The District deposits excess cash in LAIF for investment purposes. LAIF is not rated by Standard & Poor's or Moody's investor service. The fair values for these deposits were provided by the pool sponsor and are based on quoted market prices. Funds invested with LAIF are available for immediate withdrawal.

Deposits with the Alameda County Treasurer are an investment pool, invested primarily in cash and equivalents. Those balances are insured as required by the California Government Code. County deposits are not required to be categorized or rated.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

**CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 3 - Equity in East Bay Dischargers Authority - Joint Powers

The District is one of five members of a Joint Powers Authority, the East Bay Dischargers Authority (EBDA), which constructed and operates an export pumping facility through which all treated effluent in the area is discharged to the San Francisco Bay. The participating agencies share percentages of the EBDA joint facilities as follows:

Castro Valley Sanitary District	10.395%
Oro Loma Sanitary District	19.305%
City of San Leandro	18.600%
City of Hayward	33.000%
Union Sanitary District	18.700%

The assets of EBDA are primarily the costs of the property, plant, and equipment, which are used to discharge the wastewater.

Over \$40 million dollars of the construction costs and planning related thereto were funded by Federal and State sources primarily as follows: 75% by the U.S. Environmental Protection Agency (EPA), and 12.5% by the State Water Resources Control Board (SWRCB). The remaining 12.5% was funded by other sources. Because of the funding source (Federal and State), the District's investment therein is categorized as "contributed capital" to the extent funding was provided by such sources.

EBDA's operations and maintenance programs are funded principally by the member agencies and certain other local participants.

Legal title and all pertinent grant documents and conditions for joint-use facilities remain with EBDA. Each agency owns a portion of the joint facilities used by it (including the portions funded by Federal and State grants), equal to its percentage of project costs, as defined by the Joint Exercise of Powers Agreement.

Since the Federal and State funding are considered to be "grants" to EBDA benefiting the member agencies, and because the District has the ability to exercise influence over the operations and financial policies of EBDA, and the EBDA facilities are an integral part of the wastewater processing benefiting all participant agencies, the District's share of EBDA's net assets (including the Federal and State grant portions) are reflected following the equity method.

Financial statements of EBDA are available upon request from:

East Bay Dischargers Authority
2651 Grant Avenue
San Lorenzo, CA 94580

**CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 3 - Equity in East Bay Dischargers Authority - Joint Powers (continued)

Summary financial data taken from the audited financial statements of EBDA for its fiscal year ending June 30, 2008 and 2007 (the latest available) is as follows:

	2008	2007
Total fund equity - beginning of year	\$ 36,614,424	\$ 36,828,222
Net income before depreciation	762,532	618,959
Depreciation	<u>(831,760)</u>	<u>(832,757)</u>
Decrease in fund equity	<u>(69,228)</u>	<u>(213,798)</u>
Total fund equity - end of year	<u>\$ 36,545,196</u>	<u>\$ 36,614,424</u>
Comprised of		
Total assets	\$ 36,954,551	\$ 37,361,165
Less total liabilities	<u>(409,355)</u>	<u>(746,741)</u>
	<u>\$ 36,545,196</u>	<u>\$ 36,614,424</u>

The District's equity interest in EBDA at 10.395% is as follows:

	2008	2007
Equity in EBDA - beginning of year	\$ 3,806,069	\$ 3,828,293
Decrease in equity	<u>(7,196)</u>	<u>(22,224)</u>
Equity in EBDA - end of year	<u>\$ 3,798,873</u>	<u>\$ 3,806,069</u>

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CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 4 - Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employee's Retirement System (CalPERS) to provide defined retirement benefits for its employees. CalPERS is a multi-employer public retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Substantially all full-time employees participate in CalPERS. Eligible employees who retire at or after age 50, with a minimum of 5 years of service, are entitled to a monthly retirement benefit based upon compensation, years of service, and retirement age. Benefit provisions and all other requirements are established by state statute and District ordinances. In addition, as the District's plan has less than 100 active participants at June 30, 2009 and 2008, the District is required by CalPERS to participate in a risk pool, combined with many other participating entities. Copies of the CalPERS annual financial report may be obtained from their offices at 400 "P" Street, Sacramento, CA 95814.

Funding Policy

Participating employees are required to contribute 8% of their salary to CalPERS. (For the years ended June 30, 2009 and 2008 the employer has elected to pay the employee share.) The District is required to contribute the remaining amounts necessary to fund the entire employee benefit, as calculated by CalPERS actuaries and adopted by the Board of Administration. The required funding rates and related information are as follows:

	2009	2008
Total required contribution rate	27.189%	26.292%
Total payroll expense	\$1,017,462	\$ 898,533
Covered payroll expense	\$ 923,351	\$ 845,679
Actual pension cost (APC)	\$ 251,352	\$ 222,631
Annual required contribution (ARC)	\$ 251,352	\$ 222,631
Actual contribution	\$ 251,352	\$ 222,631
Net pension obligation (NPO)	-	-

**CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 4 - Defined Benefit Pension Plan (continued)

Actuarial Methods and Assumptions

The actuarial funding method is the Entry Age Normal Cost Method, used to determine projected benefits and associated liabilities, spread in a manner to level annual cost as a percentage of pay in each year from the age of hire to the assumed retirement age. The actuarial valuation of Plan assets is determined using a technique that smoothes the effect of short-term volatility of investment value over a 2-5 year period, depending on the significance of investment gains and/or losses.

Principal actuarial assumptions are as follows:

Valuation date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average remaining period	17 Years
Asset Valuation Method	15 Years Smoothed Market
Investment rate of return, net	7.75% (net of Administrative expenses)
Projected salary growth, overall	3.25%
Projected salary increases	3.25 – 14.45% depending on Age, Service, and type of employment
Inflation	3.00%

Actuarial Valuation

Plan expenses and liabilities recorded in the financial statements as of and for the years ended June 30, 2009 and 2008 were based on an actuarial valuation made as of June 30, 2007. The actuarial accrued liability related to the Plan is equal to the present value of the benefits expected to be paid. The excess of the total actuarial accrued liability over the actuarial value of plan assets is the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. In addition, all gains or losses are tracked and amortized over a rolling 30 years.

**CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 4 - Defined Benefit Pension Plan (continued)

Actuarial Valuation (continued)

The following table details the Schedule of Funding Progress of the entire risk pool in which the District participates, as of the most recent valuation date related to the 2007, 2006 and 2005 fiscal years:

	Valuation Date		
	June 30, 2007	June 30, 2006	June 30, 2005
Accrued actuarial liability	\$ 1,627,025,950	\$ 1,280,157,040	\$ 872,346,612
Actuarial value of assets	\$ 1,362,059,317	\$ 1,069,546,974	\$ 729,556,809
Unfunded liability	\$ 264,966,633	\$ 210,610,066	\$ 142,789,803
Funded ratio	83.7%	83.6%	83.6%
Annual covered payroll	\$ 376,292,121	\$ 304,898,179	\$ 203,995,039
Unfunded liability as a % of Payroll	70.4%	69.1%	70.0%

Note 5 - CalPERS 457 Deferred Compensation Plan

The District offers eligible employees the opportunity of contributing to a supplemental savings plan for retirement on a tax-deferred basis. The Plan is established and administered through CalPERS under the Internal Revenue Code 457. The District also matches employee contributions after successful completion of their probationary period based on the following maximum levels; for the first through second year of regular service to the District, \$800 per year; during the third and fourth year, \$1,600 per year and after the fourth year of regular service to the District, \$2,400 per year.

During the fiscal years ended June 30, 2009 and 2008, total contributions were \$63,719 and \$72,344, of which \$21,350 and \$21,771, respectively, were the District's matching contributions.

The following reflects transactions in the Plan for the year:

	2009	2008
Beginning Balance	\$ 523,662	\$ 569,734
Contributions	66,133	75,526
Earnings	(120,669)	(62,513)
Withdrawals/Other	(322)	(59,085)
Ending Balance	<u>\$ 468,804</u>	<u>\$ 523,662</u>

CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 6 – Postemployment Benefits

The District provides postemployment healthcare benefits to all retired employees and their spouses providing the employee is eligible to receive retirement benefits from PERS. The District is to provide healthcare benefits in effect at the time of retirement. Such obligation is set forth in a Memorandum of Understanding between the Board of Directors and employees of the District.

Postemployment benefits are currently paid on a pay-as-you-go basis. There are currently eleven retirees receiving postemployment benefits, of which \$119,765 was paid during the year ended June 30, 2009.

In 2004, the Government Accounting Standards Board (GASB) issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The effective date for the District for this standard is fiscal 2010. Statement 45 requires a minimum expense called the Annual Required Contribution (ARC) equal to the actuarial normal cost plus amortization of the Unfunded Actuarial Accrued Liability (UAAL) over 30 years (or less) as a level percentage of increasing payroll.

An actuarial study was performed by the District as of July 1, 2007. The 2007 study estimated the District's Actuarial Accrued Liability (AAL) to be \$2,217,400 based on an expected 5% rate of return on assets and premium increases declining from 10% in 2009 to 5% for 2014 and later. The ARC is estimated to be \$154,900 over a 30-year period. The ARC is comprised of a UAAL payment of \$90,400 and an actuarial normal cost of \$64,500.

CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 7 - Property, Plant, and Equipment

Changes in the District's property, plant, and equipment and accumulated depreciation for the year ended June 30, 2009 is summarized as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 337,168	\$ -	\$ -	\$ 337,168
Construction in progress	610,435	2,101,242	(628,956)	2,082,721
Total assets not being depreciated	<u>947,603</u>	<u>2,101,242</u>	<u>(628,956)</u>	<u>2,419,889</u>
Capital assets being depreciated:				
Subsurface line	13,416,975	-	-	13,416,975
Wastewater collection facilities	1,270,198	5,170	-	1,275,368
Wastewater treatment facilities	16,842,198	142,860	-	16,985,058
General plant/admin. facilities	2,589,437	312,126	-	2,901,563
Total capital assets being depreciated	<u>34,118,808</u>	<u>460,156</u>	<u>-</u>	<u>34,578,964</u>
Total capital assets	<u>35,066,411</u>	<u>2,561,398</u>	<u>(628,956)</u>	<u>36,998,853</u>
Less Accumulated Depreciation:				
Subsurface lines	4,356,413	178,825	-	4,535,238
Wastewater collection facilities	515,799	55,320	-	571,119
Wastewater treatment facilities	6,368,389	731,900	-	7,100,289
General plant/admin. facilities	1,193,667	144,603	-	1,338,270
Total accumulated depreciation	<u>(12,434,268)</u>	<u>(1,110,648)</u>	<u>-</u>	<u>(13,544,916)</u>
Net Property, Plant, and Equipment	<u>\$ 22,632,143</u>	<u>\$ 1,450,750</u>	<u>\$ (628,956)</u>	<u>\$ 23,453,937</u>

**CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Note 8 - 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 53 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 annual premiums to CSRMA for its Pooled Liability and Property Damage programs.

As of June 30, 2009, the District had purchased the following insurance coverage through the CSRMA:

Type of Coverage	Deductible	Total Coverage
General liability and auto	\$1,000	\$ 3,000,000
Automobile liability (each accident)	\$ -	\$ 1,000,000
Excess liability	\$ -	\$ 4,000,000
Property damage	\$5,000	\$23,092,211
Mobile Equipment	\$2,000	\$ 529,286
Employee Dishonesty Bond	\$1,000	\$ 100,000

Workers compensation insurance is purchased through Redwood Fire & Casualty Insurance Company.

Note 9 – Assessment District Debt

Assessment District No. 5 was formed to finance Jensen Road Sewer Improvements in the manner provided by the Improvement Bond Act of 1915. The assessments and the resultant bonds issued are the obligations of the individual property owners within the District and are not the obligations of the Castro Valley Sanitary District, which administers the assessments and funds on behalf of the Assessment District.

At June 30, 2009 and 2008, bonds payable on the outstanding debt was \$190,000 and \$210,000, respectively. Restricted cash held for Assessment District expenses and debt at June 30, 2009 and 2008 was \$12,654 and \$27,005, respectively. This amount is being held on behalf of the Assessment District in a "fiduciary account" and is not included in the assets of the District.

CASTRO VALLEY SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 10 - Contingencies (Refuse Collection Revenue and Altamont Landfill Closure)

The District uses a single contractor for the collection of solid waste refuse (garbage) generated in the District's service area. The same Contractor owns and operates the Altamont Sanitary Landfill where the District's solid waste refuse is disposed. Due to changing regulatory requirements imposed on landfill operators, a number of issues remain outstanding between the District and the Contractor. Those issues pertain to long-term environmental health and safety concerns resulting from landfill closure and post-closure.

The District believes any costs associated with the landfill closure should be borne by the contractor and operator of the landfill. Further, the District has not agreed to any liability whatsoever. However, the District could be required, at some point in the future, to pay a portion of the total costs incurred for its tonnage deposited before December 31, 1992. The District's share for this period, if any, of the closure/post closure costs associated with the Altamont site will be recorded and expensed in the period they become known or can be reasonably estimated.

Beginning January 1, 1993, by mutual agreement, in recognition of the Contractor's ultimate landfill closure responsibilities, a trust account under joint control by the District and Contractor was established. The amounts deposited to this account are currently recovered through District's refuse rate structure. Starting January 1, 1993, the contractor deposited funds to this account at a rate of \$1.66 per ton landfilled at the Altamont. During fiscal 1997/1998, the rate was changed to \$0.72 per ton which covered the estimated cost per ton placed in the landfill. The account is carried on the Contractor's books and is not included in the District's financial statements. As of June 30, 2009, the trust account balance was \$821,678. The District's Contractor represents that the \$0.72 collected covers the closure/post-closure cost per ton disposed plus a portion of the historical cost due for tonnage disposal prior to January 1, 1993.

Note 11 - Commitments and Contingencies

The District is a defendant in a lawsuit arising in the normal course of business. Management estimates the potential legal liability against the District (not covered by insurance) to be approximately \$100,000. The District has provided for this legal contingency in accounts payable on the balance sheet.

SUPPLEMENTARY INFORMATION

CASTRO VALLEY SANITARY DISTRICT
Combining Statement of Revenues and Expenses
for the Year Ended June 30, 2009

	Wastewater Operations		
	Collection	Treatment	Disposal
Operating revenues:			
Service charges and fees			
Permit and inspection fees			
Contract administration fees			
Other services			
Total operating revenues			
Operating expenses:			
Salaries	\$ 480,643	\$ -	\$ -
Employee benefits	214,121	-	-
Gasoline and oil	11,779	-	-
Insurance and claims	18,376	-	-
Membership	2,605	-	-
Office expense	3,081	-	-
Supplies	18,574	-	-
Professional and contractual services	84,218	-	-
Rent and leases	518	-	-
Repairs and maintenance	107,496	-	-
Utilities	19,593	-	-
Renewal and replacement	49,985	218,749	49,335
Wastewater treatment - OLSD	-	1,672,720	-
Wastewater disposal - EBDA	-	-	184,358
Printing and publications	288	-	-
Director and election expense	-	-	-
Travel and car allowance	16,084	-	-
	1,027,361	1,891,469	233,693
Depreciation expenses	1,055,108	-	-
Total operating expenses	2,082,469	1,891,469	233,693

Operating income (loss)

Non-operating revenue contributions (expenses):

Connection fees	
Donated assets	
Aid from other governmental agencies	
Annexation fees	
Property taxes	
Interest income	
Other income	
Decrease in equity of EBDA joint venture	
Other revenues (expenses)	
Total non-operating revenue/contributions (expense)	

Change in net assets

CASTRO VALLEY SANITARY DISTRICT
Combining Statement of Revenues and Expenses
For the Year Ended June 30, 2009

Total Wastewater	Solid Waste	Administration	Total
\$ 5,438,591	\$ -	\$ -	\$ 5,438,591
16,398	-	-	16,398
-	699,697	-	699,697
34,270	-	-	34,270
<u>5,489,259</u>	<u>699,697</u>	<u>-</u>	<u>6,188,956</u>
\$ 480,643	\$ 175,271	\$ 377,341	\$ 1,033,255
214,121	142,993	289,041	646,155
11,779	-	-	11,779
18,376	-	118,933	137,309
2,605	675	9,379	12,659
3,081	777	35,825	39,683
18,574	12	-	18,586
84,218	69,044	197,475	350,737
518	-	1,113	1,631
107,496	-	30,586	138,082
19,593	-	27,217	46,810
318,069	-	-	318,069
1,672,720	-	-	1,672,720
184,358	-	-	184,358
288	263,234	3,071	266,593
-	-	91,334	91,334
16,084	7,128	21,133	44,345
<u>3,152,523</u>	<u>659,134</u>	<u>1,202,448</u>	<u>5,014,105</u>
<u>1,055,108</u>	<u>-</u>	<u>55,541</u>	<u>1,110,649</u>
<u>4,207,631</u>	<u>659,134</u>	<u>1,257,989</u>	<u>6,124,754</u>
<u>1,281,628</u>	<u>40,563</u>	<u>(1,257,989)</u>	<u>64,202</u>
298,200	-	-	298,200
-	-	-	-
-	331,556	-	331,556
200	-	-	200
-	-	313,074	313,074
202,207	22,772	10,386	235,365
97,354	-	-	97,354
(7,196)	-	-	(7,196)
46,374	-	(30,227)	16,147
<u>637,139</u>	<u>354,328</u>	<u>293,233</u>	<u>1,284,700</u>
<u>\$ 1,918,767</u>	<u>\$ 394,891</u>	<u>\$ (964,756)</u>	<u>\$ 1,348,902</u>