

# Castro Valley Sanitary District

Castro Valley, California

*Basic Financial Statements  
And Independent Auditors' Report  
With Supplementary Information*

*For the years ended June 30, 2010 and 2009*



**Castro Valley Sanitary District**  
**Basic Financial Statements**  
**For the year ended June 30, 2010**

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# CASTRO VALLEY SANITARY DISTRICT

## CASTRO VALLEY, CALIFORNIA

### Board of Directors at June 30, 2010

#### Board Members

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

#### Title

President  
President Pro Tem  
Secretary  
Secretary Pro Tem  
Member

### General Manager at June 30, 2010

Roland P. Williams, Jr.

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Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business type activities and the fiduciary fund information of the Castro Valley Sanitary District (District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year financial statements of the District as of June 30, 2009, were audited by other auditors whose report dated October 14, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 respective financial position of the business type activities and the fiduciary fund information of the District as of June 30, 2010, and the results of its operations and its cash flow for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 N. to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in FYE 2009/2010.

To the Board of Directors  
of the Castro Valley Sanitary District  
Castro Valley, California  
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress for pension and other post-employment benefit plans be presented to supplement the basic financial statements. Such information 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 the 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 financial statements as a whole. The statement of changes in fiduciary net assets and the combining statements of revenues and expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information have been subjected to the auditing procedures applied by us 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.

*Caproni & Larson, Inc.*

San Francisco, California  
December 3, 2010

## **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, 2010. 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 \$5,882,471 in 2009 to \$6,211,165 in 2010, an increase of \$328,694 or 5.6%. This is primarily due to a 5.25% sewer service charge increase.
- Non-operating revenue was \$1,300,181 in 2009, and \$1,063,429 in 2010, a decrease of \$(236,752) or (18.2)%. This is due to lower interest earnings and reduced grant funding.
- Operating expenses increased from \$6,124,754 in 2009 to \$6,305,477 during 2010, an increase of \$180,723 or 3.0%. Non-operating expenses increased from \$7,196 in 2009 to \$101,999 in 2010, an increase of \$94,803 or 1,317.4%.
- The District's net assets were \$36,689,125 and \$39,518,553 in 2009 and 2010, respectively; this is an increase of \$2,829,428 or 7.7%.
- Capital Contributions of connection fees and donated assets during 2010 were \$1,962,310, an increase of \$1,664,110 or 558.1%. This revenue source fluctuates based on market conditions. This increase was primarily due to connection fee revenue paid by one user that was not contemplated in the budget cycle.
- District investment in capital assets after accumulated depreciation was \$24,473,675 an increase of \$1,019,738 or 4.3% 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, 2010, with comparative 2009 data is shown below:

**Table A-1  
Condensed Summary of Net Assets**

	2010	2009	Amount of Increase or (Decrease)	Percentage Increase or (Decrease)
Current Assets	\$ 12,517,236	\$ 10,400,192	\$ 2,117,044	20.4%
Capital Assets, net	24,508,613	23,453,937	1,054,676	4.5%
Other Assets - EBDA Equity	3,703,535	3,798,873	(95,338)	-2.5%
Total Assets	<u>\$ 40,729,384</u>	<u>\$ 37,653,002</u>	<u>\$ 3,076,382</u>	<u>8.2%</u>
Current Liabilities	\$ 1,005,327	\$ 732,685	\$ 272,642	37.2%
Noncurrent Liabilities	205,504	231,192	(25,688)	-11.1%
Total Liabilities	<u>\$ 1,210,831</u>	<u>\$ 963,877</u>	<u>\$ 246,954</u>	<u>25.6%</u>
<b>Net Assets</b>				
Invested in Capital Assets	\$ 24,508,613	\$ 23,453,937	\$ 1,054,676	4.5%
Invested in EBDA	3,703,535	3,798,873	(95,338)	-2.5%
Restricted	132,025	234,492	(102,467)	-43.7%
Unrestricted	<u>11,174,380</u>	<u>9,201,823</u>	<u>1,972,557</u>	<u>21.4%</u>
<b>Total Net Assets</b>	<u><u>\$ 39,518,553</u></u>	<u><u>\$ 36,689,125</u></u>	<u><u>\$ 2,829,428</u></u>	<u><u>7.7%</u></u>

The largest portion of the District's net assets, \$24,508,613 or 62.1% at June 30, 2010 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 and unrestricted net assets at June 30, 2010 totaled \$11,306,405, which include externally imposed stipulations on how they may be used. The majority of unrestricted is for future expansion, \$11,174,380 or 98.9% at June 30, 2010. Restricted for residential and business recycling programs at June 30, 2010 totaled \$132,025 or 1.1%. Capital Assets are reported net of accumulated depreciation.

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

	<b>2010</b>	<b>2009</b>	<b>Amount of Increase or (Decrease)</b>	<b>Percentage Increase or (Decrease)</b>
Operating Revenues	\$ 6,211,165	\$ 5,882,471	\$ 328,694	5.6%
Non-Operating Revenues	1,063,429	1,300,181	(236,752)	-18.2%
Capital Contributions-Connection Fees	<u>1,962,310</u>	<u>298,200</u>	<u>1,664,110</u>	<u>558.1%</u>
<b>Total Revenues</b>	<b><u>\$ 9,236,904</u></b>	<b><u>\$ 7,480,852</u></b>	<b><u>\$ 1,756,052</u></b>	<b><u>23.5%</u></b>
Operating Expenses	\$ 6,305,477	\$ 6,124,754	\$ 180,723	3.0%
Non-Operating Expenses	<u>101,999</u>	<u>7,196</u>	<u>94,803</u>	<u>1,317.4%</u>
<b>Total Expenses</b>	<b><u>\$ 6,407,476</u></b>	<b><u>\$ 6,131,950</u></b>	<b><u>\$ 275,526</u></b>	<b><u>4.5%</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 2,829,428</b>	<b>\$ 1,348,902</b>	<b>\$ 1,480,526</b>	<b>109.8%</b>
Net Assets – Beginning of Year	<u>\$ 36,689,125</u>	<u>\$ 35,340,223</u>	<u>\$ 1,348,902</u>	<u>3.8%</u>
Net Assets – End of Year	<u><u>\$ 39,518,553</u></u>	<u><u>\$ 36,689,125</u></u>	<u><u>\$ 2,852,428</u></u>	<u><u>7.7%</u></u>

While the Condensed Summary of Net Assets (Table A-1) present the financial position of the District at the end of the fiscal year, the Condensed 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 2009, operating revenues increased in 2010 by \$328,694, or 5.6%. This is primarily due to a 5.25% sewer service charge increase. 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, decreased by \$(236,752), or (18.2)% in 2010. This is due to lower interest earnings and reduced grant funding.

Capital contributions, which include connection fees increased by \$1,664,110 or 558.1% in 2010, primarily due to a one-time contribution by one user that was not contemplated in the budget cycle.

## Capital Assets and Debt Administration

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

	2010	2009	Amount of Increase of	Percentage Increase of (Decrease)
Land	\$ 337,168	\$ 337,168	\$ -	0.0%
Construction in Progress	3,793,613	2,082,721	1,710,892	82.1%
Subsurface Lines	13,416,975	13,416,975	-	0.0%
Wastewater Collection Facilities	1,349,722	1,275,368	74,354	5.8%
Wastewater Treatment Facilities	17,207,322	16,985,058	222,264	1.3%
General Plant & Admin. Facilities	<u>3,011,683</u>	<u>2,901,563</u>	<u>110,120</u>	<u>3.8%</u>
Total Capital Assets	<u>\$ 39,116,483</u>	<u>\$ 36,998,853</u>	<u>\$ 2,117,630</u>	<u>5.7%</u>
Less Accumulated Depreciation:				
Subsurface Lines	4,714,062	4,535,238	178,824	3.9%
Wastewater Collection Facilities	626,609	571,119	55,490	9.7%
Wastewater Treatment Facilities	7,818,941	7,100,289	718,652	10.1%
General Plant & Admin. Facilities	<u>1,483,196</u>	<u>1,338,270</u>	<u>144,926</u>	<u>10.8%</u>
Total Accumulated Depreciation	<u>\$ 14,642,808</u>	<u>\$ 13,544,916</u>	<u>\$ 1,097,892</u>	<u>8.1%</u>
<b>Total Net Capital Assets</b>	<b><u>\$ 24,473,675</u></b>	<b><u>\$ 23,453,937</u></b>	<b><u>\$ 1,019,738</u></b>	<b><u>4.3%</u></b>

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 2010 by \$1,710,892 or 82.1% which was due to Treatment Plant Projects and Sewer System Master Plan Projects.

### Rates and Other Economic Factors

The District maintains the 2<sup>nd</sup> 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 2010 was \$576,893. The District found it prudent to increase sewer service user fees by \$12 for the year 2010/2011, even with this increase the District has the second lowest residential sewer service fee in Alameda County, at \$245 per year. The average Alameda County sewer service fee is \$476 and the statewide average is \$383.

During 2010 the State of California declared a fiscal emergency which suspended Prop. 1A. This caused \$47,312 or 8.0% of the District's supplemental revenue to be borrowed by the State and will be repaid with interest by June 30, 2013.

## **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](mailto:Roland@cvsan.org).

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## **BASIC FINANCIAL STATEMENTS**

**Castro Valley Sanitary District**  
**Statements of Net Assets**  
**June 30, 2010 and 2009**

	2010	2009
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash & cash equivalents	\$ 552,290	\$ 344,664
Investments	11,384,362	9,307,755
Accounts receivable	75,856	401,848
Interest receivable	11,929	35,877
Due from other government agencies	492,799	310,048
Total current assets	<u>12,517,236</u>	<u>10,400,192</u>
<b>Noncurrent assets:</b>		
Property and equipment, net of accumulated depreciation	<u>24,508,613</u>	<u>23,453,937</u>
Total noncurrent assets	<u>24,508,613</u>	<u>23,453,937</u>
<b>Other assets:</b>		
Equity in East Bay Dischargers Authority (EBDA) - Joint Powers	<u>3,703,535</u>	<u>3,798,873</u>
<b>Total assets</b>	<u><u>\$ 40,729,384</u></u>	<u><u>\$ 37,653,002</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 809,819	\$ 558,380
Accrued payroll liabilities	169,820	148,617
Current portion of deferred revenue	<u>25,688</u>	<u>25,688</u>
Total current liabilities	<u>1,005,327</u>	<u>732,685</u>
<b>Long-term liabilities:</b>		
Deferred revenue	<u>205,504</u>	<u>231,192</u>
<b>Total liabilities</b>	<u>1,210,831</u>	<u>963,877</u>
<b>Net assets:</b>		
Invested in capital assets	24,508,613	23,453,937
Invested in East Bay Dischargers Authority (EBDA) - Joint Powers	3,703,535	3,798,873
Restricted for:		
Measure D - solid waste	132,025	234,492
Unrestricted	<u>11,174,380</u>	<u>9,201,823</u>
<b>Total net assets</b>	<u>39,518,553</u>	<u>36,689,125</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 40,729,384</u></u>	<u><u>\$ 37,653,002</u></u>

See accompanying Notes to Basic Financial Statements.

**Castro Valley Sanitary District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2010 and 2009**

	2010	2009
<b>OPERATING REVENUES</b>		
Service charges and fees	\$ 5,259,576	\$ 5,132,106
Permits and inspection fees	12,070	16,398
Contract administration fees	906,451	699,697
Other services	33,068	34,270
<b>Total operating revenues</b>	<b>6,211,165</b>	<b>5,882,471</b>
<b>OPERATING EXPENSES</b>		
Wastewater collection	1,384,719	2,082,469
Wastewater treatment	2,532,031	1,891,469
Wastewater disposal	257,826	233,693
Solid waste disposal	285,719	364,419
Solid waste diversion - Measure D	220,887	294,715
Administration and general	1,624,295	1,257,989
<b>Total operating expenses</b>	<b>6,305,477</b>	<b>6,124,754</b>
<b>Operating income (loss)</b>	<b>(94,312)</b>	<b>(242,283)</b>
<b>NONOPERATING REVENUES/ EXPENSES</b>		
Aid from other governmental agencies	276,262	331,556
Annexation fees	-	200
Property taxes	576,893	619,559
Interest income	102,894	235,365
Other revenues	107,380	97,354
Change in equity of EBDA Joint Powers	(95,338)	(7,196)
Other expenses	(6,661)	16,147
<b>Total nonoperating revenues/ expenses</b>	<b>961,430</b>	<b>1,292,985</b>
<b>Income before contributions</b>	<b>867,118</b>	<b>1,050,702</b>
Capital contributions - connection fees	1,962,310	298,200
<b>Change in net assets</b>	<b>2,829,428</b>	<b>1,348,902</b>
<b>NET ASSETS:</b>		
Beginning of year	36,689,125	35,340,223
End of year	<b>\$ 39,518,553</b>	<b>\$ 36,689,125</b>

See accompanying Notes to Basic Financial Statements.

**Castro Valley Sanitary District**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2010 and 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from sewer customers	\$ 5,743,413	\$ 5,489,260
Contract administrative fees	768,056	699,697
Payments for employee services and benefits	(1,831,033)	(1,685,174)
Payments for services and supplies	(3,103,908)	(3,021,402)
<b>Net cash provided by operating activities</b>	<b>1,576,528</b>	<b>1,482,381</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Aid from other governmental agencies	93,511	331,556
Property taxes	576,893	313,074
Connection fees and donated assets	1,962,310	298,200
Other revenue and expenses	100,720	113,700
<b>Net cash provided by noncapital financing activities</b>	<b>2,733,434</b>	<b>1,056,530</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Construction and fixed assets additions	(2,152,571)	(2,212,759)
<b>Net cash used by capital and related financing activities</b>	<b>(2,152,571)</b>	<b>(2,212,759)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of long-term investments	(1,000,000)	-
Interest received	126,842	266,989
<b>Net cash provided (used) by investing activities</b>	<b>(873,158)</b>	<b>266,989</b>
<b>Net change in cash and cash equivalents</b>	<b>1,284,233</b>	<b>593,141</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	9,652,419	9,059,278
End of year	<b>\$ 10,936,652</b>	<b>\$ 9,652,419</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Cash	\$ 552,290	\$ 344,664
Investments	11,384,362	9,307,755
<b>Cash and investments</b>	<b>11,936,652</b>	<b>9,652,419</b>
Less investments with original maturities in excess of three months	1,000,000	-
<b>Cash and cash equivalents</b>	<b>\$ 10,936,652</b>	<b>\$ 9,652,419</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (94,312)	\$ 64,202
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	1,097,894	1,110,649
(Increase) decrease in:		
Accounts receivable	325,992	(30,832)
Construction in progress written-off	-	280,317
Accounts payable	251,439	46,995
Accrued payroll liabilities	21,203	36,738
Deferred revenue	(25,688)	(25,688)
<b>Net cash provided by operating activities</b>	<b>\$ 1,576,528</b>	<b>\$ 1,482,381</b>

See accompanying Notes to Basic Financial Statements.

**Castro Valley Sanitary District**  
**Statements of Net Assets**  
**Fiduciary Fund**  
**For the year ended June 30, 2010**

	<u>2010</u>	<u>2009</u>
<b>Jensen Rd. Assessment District #5</b>		
<b>ASSETS</b>		
Cash and investments	\$ 16,608	\$ 12,654
Receivables	32,923	14,901
<b>Total assets</b>	<b>\$ 49,531</b>	<b>\$ 27,555</b>
<b>LIABILITIES</b>		
Other accrued liabilities	\$ 49,531	\$ 27,555
<b>Total liabilities</b>	<b>\$ 49,531</b>	<b>\$ 27,555</b>

See accompanying Notes to Basic Financial Statements.

**Castro Valley Sanitary District**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Fund**  
**For the year ended June 30, 2010**

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<b>Jensen Rd. Assessment District #5</b>				
<b>Assets:</b>				
Cash and investments	\$ 12,654	\$ 40,265	\$ 36,310	\$ 16,608
Receivables	14,901	18,021	-	32,923
<b>Total assets</b>	<b>\$ 27,555</b>	<b>\$ 58,286</b>	<b>\$ 36,310</b>	<b>\$ 49,531</b>
<b>Liabilities:</b>				
Due to bondholders	\$ 27,555	\$ 58,286	\$ 36,310	\$ 49,531
<b>Total liabilities</b>	<b>\$ 27,555</b>	<b>\$ 58,286</b>	<b>\$ 36,310</b>	<b>\$ 49,531</b>

See accompanying Notes to Basic Financial Statements.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant accounting policies of the District are described below.

**A. 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 part of the government-wide 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 4).

**B. Basis of Accounting and Measurement Focus**

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 business-type 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 accounting for fiduciary funds is much like that used for enterprise funds.

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.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting and Measurement Focus, Continued***

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 nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Assets.

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.

***C. Cash, Cash Equivalents and Investments***

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.

***D. Accounts Receivables and Allowance for Doubtful Accounts***

On a periodic basis, the District evaluates its accounts receivables and establishes an allowance for doubtful accounts if necessary based on a history of past write-offs, collections and current credit conditions.

The District recognizes bad debt expense relating to receivables, when it is probable that the accounts will be uncollectible. As of June 30, 2010 and 2009, management believes no allowance for doubtful accounts is necessary due to historical experience and the nature of the receivables.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**E. 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

**F. 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.

**G. 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 \$108,887 and \$98,486 as of June 30, 2010 and 2009, respectively, is included within accrued payroll liabilities on the Statements of Net Assets.

**H. 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 \$231,192 as of June 30, 2010.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**I. Net Assets / Fund Balance**

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets. There is no related debt outstanding as of June 30, 2010 and 2009.

Invested in East Bay Dischargers Authority - This amount consists of the District's shared 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, 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 is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

**J. 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.

**K. 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, 2010 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.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*L. Reclassifications*

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

*M. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

*N. New Pronouncements*

In 2010, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits (OPEB) other than Pensions* - the Statement establishes standards for the measurement, recognition, and display of OPEB costs and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of State and local government employers.

**2. CASH AND INVESTMENTS**

At June 30, 2010, the District's pooled cash and investments are classified in the accompanying financial statements as follows:

	2010	2009
<b>Business-Type Activities:</b>		
Cash:		
Cash on hand	\$ 750	\$ 250
Cash in bank	444,657	260,879
Cash with Alameda County	106,883	83,535
<b>Total cash</b>	552,290	344,664
Certificates of Deposit (FDIC Insured)	1,000,000	-
State of California Local Agency Investment Fund (not rated)	10,384,362	9,307,755
<b>Total cash and investments</b>	\$ 11,936,652	\$ 9,652,419
<b>Fiduciary Fund:</b>		
Restricted cash & Investments	\$ 16,608	\$ 12,654

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**2. CASH AND INVESTMENTS, Continued**

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 \$250,000 by the Federal Deposit Insurance Corporation. The District, however, has not waived the collateralization requirements.

The District's Investment Policy requires that the assets of the District should be invested only in the cash pool of the Alameda County Treasurer's Office, California Local Agency Investment Fund, banks' interest-bearing accounts, U.S. treasury obligations, and certificates of deposit at financial institutions.

The District is a voluntary 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 balance is available for withdrawal on demand. The District's investments with LAIF at June 30, 2010, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30 2010, the District had \$10,384,362 invested in LAIF, which had invested 5.42% of the pool investment funds in Structured Notes and Asset-Backed Securities. The District chose to report its investment in LAIF at the book value amount provided by LAIF.

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 Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**3. PROPERTY, PLANT AND EQUIPMENT**

Changes in the District's property, plant, and equipment and accumulated depreciation for the year ended June 30, 2010 are summarized as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010
Capital assets not being depreciated:				
Land	\$ 337,168	\$ -	\$ -	\$ 337,168
Construction in progress	2,082,721	1,745,834	-	3,828,555
<b>Total assets not being depreciated</b>	<b>2,419,889</b>	<b>1,745,834</b>	<b>-</b>	<b>4,165,723</b>
Capital assets being depreciated:				
Subsurface line	13,416,975	-	-	13,416,975
Wastewater collection facilities	1,275,368	74,354	-	1,349,722
Wastewater treatment facilities	16,985,058	222,264	-	17,207,322
General plant/ admin facilities	2,901,563	110,119	-	3,011,682
<b>Total assets being depreciated</b>	<b>34,578,964</b>	<b>406,737</b>	<b>-</b>	<b>34,985,701</b>
<b>Total capital assets</b>	<b>36,998,853</b>	<b>2,152,571</b>	<b>-</b>	<b>39,151,424</b>
Less accumulated depreciation:				
Subsurface line	(4,535,238)	(178,825)	-	(4,714,063)
Wastewater collection facilities	(571,119)	(55,491)	-	(626,610)
Wastewater treatment facilities	(7,100,289)	(718,652)	-	(7,818,941)
General plant/ admin facilities	(1,338,270)	(144,927)	-	(1,483,197)
<b>Total accumulated depreciation</b>	<b>(13,544,916)</b>	<b>(1,097,895)</b>	<b>-</b>	<b>(14,642,811)</b>
<b>Net property, plant and equipment</b>	<b>\$ 23,453,937</b>	<b>\$ 1,054,676</b>	<b>\$ -</b>	<b>\$ 24,508,613</b>

**4. 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.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**4. EQUITY IN EAST BAY DISCHARGERS AUTHORITY - JOINT POWERS, Continued**

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

Summary financial data taken from the audited financial statements of EBDA for its fiscal year ending June 30, 2010 and 2008 (used by the District to report the equity share for FY08/09) is as follows:

	2010	2008
Total fund equity - beginning of year	\$ 36,136,117	\$ 36,614,424
Net income before depreciation	390,473	762,532
Depreciation	(898,547)	(831,760)
Decrease in fund equity	(508,074)	(69,228)
<b>Total fund equity - end of year</b>	<b>35,628,043</b>	<b>36,545,196</b>
Comprised of:		
Total assets	36,021,695	36,954,551
Less total liabilities	(393,652)	(409,355)
<b>Total cash and cash equivalents</b>	<b>\$ 35,628,043</b>	<b>\$ 36,545,196</b>

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**4. EQUITY IN EAST BAY DISCHARGERS AUTHORITY - JOINT POWERS, Continued**

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

	2010	2009
Equity in EBDA - beginning of year	\$ 3,798,873	\$ 3,806,069
Decrease in equity	(95,338)	(7,196)
<b>Equity in EBDA - end of year</b>	<b>\$ 3,703,535</b>	<b>\$ 3,798,873</b>

**5. DEFINED BENEFIT PENSION PLAN**

*Plan Description:* The District contributes to the California Public Employees Retirement System (CalPERS) to provide defined retirement benefits for its employees. CalPERS is a multiple-employer public retirement system that acts as a common investment and administrative agency 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 fewer than 100 active participants at June 30, 2010 and 2009, 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, California 95814.

*Funding Policy:* Participating employees are required to contribute 8% of their salary to CalPERS. (For the years ended June 30, 2010 and 2009, 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:

	2010	2009
Total required contribution rate	20.042%	19.189%
Total payroll expense	\$ 1,133,855	\$ 1,017,462
Covered payroll expense	1,039,451	923,351
Actual pension cost (APC)	208,437	177,182
Annual required contribution (ARC)	208,437	177,182
Actual contribution	208,437	177,182
Net pension obligation (NPO)	-	-

*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 15 year period, depending on the significance of investment gains and/or losses.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**5. DEFINED BENEFIT PENSION PLAN, Continued**

Principal actuarial assumptions are as follows:

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
6/30/2006	\$ 1,069,546,974	\$ 1,280,157,040	\$ 210,610,066	83.5%	\$ 304,898,179	69.1%
6/30/2007	1,362,059,317	1,627,025,950	264,966,633	83.7%	376,292,121	70.4%
6/30/2008	1,529,548,799	1,823,366,479	293,817,680	83.9%	414,589,514	70.9%

Actuarial Valuation: Plan expenses are recorded in the financial statements as of and for the years ended June 30, 2010 were based on an actuarial valuation made as of June 30, 2008. 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.

Funding Status as of the Most Recent Actuarial Date

The District's retirement plans are parts of the CalPERS risk pool for cities and other governmental entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, stand alone information of the schedule of the funding progress for the District's employees is not available.

Employer Side Fund - At the time of joining the State-wide pools, CalPERS required that the District true-up any unfunded liabilities in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CalPERS. The District satisfied its Pension Plan unfunded liabilities by agreeing to contribute to the side fund through an addition to its normal contribution rate over the next 10 years. The balance of the Miscellaneous Plan side fund was \$617,640 at June 30, 2010.

**6. 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.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**6. CALPERS 457 DEFERRED COMPENSATION PLAN, Continued**

During the fiscal years ended June 30, 2010 and 2009, total contributions were \$66,286 and \$63,719, of which \$22,185 and \$21,350, respectively, were the District's matching contributions.

The following reflects transactions in the Plan for the year:

	2010	2009
Beginning balance	\$ 468,804	\$ 523,662
Contributions	63,871	66,133
Earnings	67,304	(120,669)
Withdrawals/other	(30,000)	(322)
<b>Ending balance</b>	<b>\$ 569,979</b>	<b>\$ 468,804</b>

**7. OTHER POST EMPLOYMENT BENEFITS**

The District provides postemployment healthcare benefits to all retired employees and their spouses providing the employee is eligible to receive retirement benefits from CalPERS. 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.

In FYE 09/10, the District joined the California Employers' Retiree Benefit Trust (CERBT). The District contributed \$120,600 to the CERBT. The contribution amount was not reflected in the actuarial calculation as of January 1, 2010.

The District's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table illustrates the District's June 30, 2010 Net OPEB Obligation:

Net OPEB Obligation June 30, 2009	\$ -
Annual OPEB Cost	120,600
Contributions 2009/2010	(120,600)
Estimated NET OPEB Obligation June 30, 2010	<u>\$ -</u>

**Funded Status and Funding Progress** – As of January 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability (AAL) for benefits was \$1,342,300, and the actuarial value of plan assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,342,300. The covered payroll (annual payroll of active employees covered by the plan) was \$1,100,400 and the ratio of UAAL to the covered payroll was 121.98%.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**7. OTHER POST EMPLOYMENT BENEFITS, Continued**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of including this information in the financial report, the data presented is limited.

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

The District's January 1, 2010 retiree healthcare valuation was prepared using the Entry Age Normal (EAN) actuarial cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For the retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at January 1, 2010 of 30 years.

GASB 45 requires the interest rate to represent the underlying expected long-term rate of return for the source of funds used to pay benefits. The District's retiree healthcare valuation included a 7.75% interest rate, which is the rate of return for CalPERS. Another key assumption is that future healthcare inflation rate used to increase the PEMHCA minimum contribution is expected to increase 7% in 2011, 6% in 2012, and 5% per annum thereafter. Annual general inflation is assumed to increase at 3% and aggregate payroll to increase at 3.25 % per annum. The study also used assumptions for the salary merit and longevity increases, and demographic assumptions such as mortality, withdrawal, and disability based on CalPERS 2004 Experience Study. Retirement assumption was also based on CalPERS 2004 Experience Study of the Miscellaneous Plan 2.7% at 55 years, with expected retirement age of approximate 59.7 for the District employees.

**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.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**8. RISK MANAGEMENT, Continued**

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. In the last three years, the District did not have any claims exceeding the insurance coverage. Therefore, no claim liabilities were recorded.

As of June 30, 2010, the District had purchased the following insurance coverage through the CSRMA:

	<u>Deductible</u>	<u>Total Coverage</u>
Type of 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	-	750,000

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

**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, 2010 and 2009, bonds payable on the outstanding debt was \$165,000 and \$190,000, respectively. Restricted cash held for Assessment District expenses and debt at June 30, 2010 and 2009 was \$16,608 and \$12,654, respectively. This amount is being held on behalf of the Assessment District in a "fiduciary account" and is not included in the Statement of Net Assets.

**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.

**Castro Valley Sanitary District**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

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**10. CONTINGENCIES (REFUSE COLLECTION REVENUE AND ALTAMONT LANDFILL CLOSURE),  
Continued**

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, 2010, the trust account balance was \$820,672. 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.

**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 \$325,000. The District has provided for this legal contingency in accounts payable on the balance sheet.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Castro Valley Sanitary District**  
**Required Supplementary Information**  
**For the year ended June 30, 2010**

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**1. PUBLIC EMPLOYEE RETIREMENT SYSTEMS SCHEDULE OF FUNDING PROGRESS**

The District's retirement plans are parts of the CalPERS risk pool for cities and other governmental entities that have less than 100 active members. Actuarial valuations performed included other participants within the same risk pool. Therefore, stand alone information of the schedule of the funding progress for the District's employees is not available.

**2. OTHER POSTEMPLOYMENT BENEFIT PLAN SCHEDULE OF FUNDING PROGRESS**

*Funded Status of Plan*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Actuarial Unfunded (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Liability as Percentage of Covered Payroll</u>
1/1/2007	\$ -	\$ 2,217,400	\$ 2,217,400	0.0%	\$ 771,400	287.5%
1/1/2010	-	1,342,300	1,342,300	0.0%	1,100,400	122.0%

## **SUPPLEMENTAL INFORMATION**

**Castro Valley Sanitary District**  
**Combining Statements of Revenues and Expenses**  
**For the Years Ended June 30, 2010 and 2009**

	Wastewater Operations		
	Collection	Treatment	Disposal
<b>OPERATING REVENUES</b>			
Service charges and fees	\$ -	\$ -	\$ -
Permits and inspection fees	-	-	-
Contract administration fees	-	-	-
Other services	-	-	-
<b>Total operating revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>OPERATING EXPENSES</b>			
Salaries	488,943	-	-
Employee benefits	271,623	-	-
Gasoline and oil	13,566	-	-
Insurance and claims	18,239	-	-
Membership	8,965	-	-
Office expense	4,108	-	-
Supplies	30,118	-	-
Professional and contractual services	12,576	-	-
Rent and leases	432	-	-
Repairs and maintenance	102,530	-	-
Utilities	20,628	-	-
Renewal and replacement	67,837	299,649	49,335
Wastewater treatment - OLSD	-	1,513,730	-
Wastewater disposal - EBDA	-	-	208,491
Printing and publications	11,490	-	-
Director and election expense	-	-	-
Travel and car allowance	8,624	-	-
	1,059,679	1,813,379	257,826
Depreciation expense	325,040	718,652	-
<b>Total operating expenses</b>	<b>\$ 1,384,719</b>	<b>\$ 2,532,031</b>	<b>\$ 257,826</b>
<b>OPERATING INCOME (LOSS)</b>			
<b>NONOPERATING REVENUE</b>			
<b>CONTRIBUTIONS (EXPENSES)</b>			
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)			
<b>Total nonoperating revenues/contributions (expenses)</b>			
<b>Change in net assets</b>			

<u>Total Wastewater</u>	<u>Solid Waste</u>	<u>Administration</u>	<u>Total</u>
\$ 5,259,576	\$ -	\$ -	\$ 5,259,576
12,070	-	-	12,070
-	906,451	-	906,451
33,068	-	-	33,068
<u>5,304,714</u>	<u>906,451</u>	<u>-</u>	<u>6,211,165</u>
488,943	229,157	436,591	1,154,691
271,623	87,261	338,661	697,545
13,566	-	-	13,566
18,239	-	115,854	134,093
8,965	602	13,336	22,903
4,108	504	34,816	39,428
30,118	2,888	-	33,006
12,576	8,263	464,076	484,915
432	-	1,352	1,784
102,530	2,107	32,525	137,162
20,628	-	27,941	48,569
416,821	-	-	416,821
1,513,730	-	-	1,513,730
208,491	-	-	208,491
11,490	172,452	5,786	189,728
-	-	72,655	72,655
8,624	3,372	26,500	38,496
<u>3,130,884</u>	<u>506,606</u>	<u>1,570,093</u>	<u>5,207,583</u>
<u>1,043,692</u>		<u>54,202</u>	<u>1,097,894</u>
<u>4,174,576</u>	<u>506,606</u>	<u>1,624,295</u>	<u>6,305,477</u>
<u>1,130,138</u>	<u>399,845</u>	<u>(1,624,295)</u>	<u>(94,312)</u>
1,962,310	-	-	1,962,310
-	-	-	-
-	276,262	-	276,262
-	-	-	-
-	-	576,893	576,893
75,754	4,632	22,508	102,894
107,380	-	-	107,380
(95,338)	-	-	(95,338)
-	-	(6,661)	(6,661)
<u>2,050,106</u>	<u>280,894</u>	<u>592,740</u>	<u>2,923,740</u>
<u>\$ 3,180,244</u>	<u>\$ 680,739</u>	<u>\$ (1,031,555)</u>	<u>\$ 2,829,428</u>

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