

Castro Valley Sanitary District

Castro Valley, California

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

For the years ended June 30, 2011 and 2010

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

Castro Valley Sanitary District
Basic Financial Statements
For the years ended June 30, 2011 and 2010

Table of Contents

	<u>Page</u>
INTRODUCTRY SECTION	
Board of Directors and General Manager	i
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information).....	3
Basic Financial Statements:	
Government-wide Financial Statements	
Statements of Net Assets	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
Fiduciary Fund Financial Statements	
Statements of Net Assets	11
Statement of Changes in Fiduciary Net Assets	12
Notes to Basic Financial Statements	13
Required Supplementary Information:	
Pension Plan - Schedule of Funding Progress (Unaudited)	28
OPEB Plan - Schedule of Funding Progress (Unaudited)	28
Supplemental Information:	
Combining Statements of Revenues and Expenses	30

CASTRO VALLEY SANITARY DISTRICT

CASTRO VALLEY, CALIFORNIA

Board of Directors at June 30, 2011

Board Members
Harry Francis
Ralph Johnson
Timothy McGowan
Daniel M. Akagi
Dave Sadoff

Title
President
President Pro Tem
Secretary
Secretary Pro Tem
Member

General Manager at June 30, 2011

Roland P. Williams, Jr.

This page intentionally left blank.

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 Castro Valley Sanitary District (District), as of and for the years ended June 30, 2011 and 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 our opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

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, 2011 and 2010, and the results of its operations and its cash flow for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis and the Required Supplementary Information on pages 3 to 6 and pages 27 to 28, respectively, are not a required part of the basic financial statements, but are supplementary 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 the information and express no opinion on it.

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. 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 in the audit of the financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
November 1, 2011

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, 2011. 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 \$6,211,165 in 2010 to \$6,623,580 in 2011, an increase of \$412,415 or 6.6%. This is primarily due to a 3.0% sewer service charge increase.
- Non-operating revenue was \$1,063,429 in 2010 and \$1,121,246 in 2011, an increase of \$57,817 or 5.4%. This is due to an increase in grant funding.
- Operating expenses increased from \$6,305,477 in 2010 to \$6,731,716 during 2011, an increase of \$426,239 or 6.8%. Non-operating expenses decreased from \$101,999 in 2010 to \$-0- in 2011, a decrease of \$(101,999) or (100.0)% primarily in the change of EBDA equity booked in 2010 to 2011.
- The District's net assets were \$39,518,553 and \$40,712,093 in 2010 and 2011, respectively; this is an increase of \$1,193,540 or 3.0%.
- Capital Contributions of connection fees and donated assets during 2011 were \$180,430, a decrease of \$(1,781,880) or (90.8)%. This revenue source fluctuates based on market conditions.
- District investment in capital assets after accumulated depreciation was \$26,884,979 an increase of \$2,411,304 or 9.9% 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, 2011, with comparative 2010 data is shown below:

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

	2011	2010	Amount of Increase or (Decrease)	Percentage Increase or (Decrease)
Current Assets	\$ 11,537,055	\$ 12,517,236	\$ (980,181)	-7.8%
Capital Assets, net	26,884,979	24,508,613	2,376,366	9.7%
Other Assets - EBDA Equity	3,703,535	3,703,535	-	0.0%
Total Assets	<u>\$ 42,125,569</u>	<u>\$ 40,729,384</u>	<u>\$ 1,396,185</u>	<u>3.4%</u>
Current Liabilities	\$ 1,233,660	\$ 1,005,327	\$ 228,333	22.7%
Noncurrent Liabilities	179,816	205,504	(25,688)	-12.5%
Total Liabilities	<u>\$ 1,413,476</u>	<u>\$ 1,210,831</u>	<u>\$ 202,645</u>	<u>16.7%</u>
Net Assets				
Invested in Capital Assets	\$ 26,884,979	\$ 24,508,613	\$ 2,376,366	9.7%
Invested in EBDA	3,703,535	3,703,535	-	0.0%
Restricted	124,348	132,025	(7,677)	-5.8%
Unrestricted	<u>9,999,231</u>	<u>11,174,380</u>	<u>(1,175,149)</u>	<u>-10.5%</u>
Total Net Assets	<u><u>\$ 40,712,093</u></u>	<u><u>\$ 39,518,553</u></u>	<u><u>\$ 1,193,540</u></u>	<u><u>3.0%</u></u>

The largest portion of the District's net assets, \$26,884,979 or 66.1% at June 30, 2011 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, 2011 totaled \$10,123,579, which include externally imposed stipulations on how they may be used. The majority of unrestricted is for future expansion, \$9,999,231 or 98.8% at June 30, 2011. Restricted for residential and business recycling programs at June 30, 2011 totaled \$124,348 or 1.2%. Capital Assets are reported net of accumulated depreciation.

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

	2011	2010	Amount of Increase or (Decrease)	Percentage Increase or (Decrease)
Operating Revenues	\$ 6,623,580	\$ 6,211,165	\$ 412,415	6.6%
Non-Operating Revenues	1,121,246	1,063,429	57,817	5.4%
Capital Contributions-Connection Fees	<u>180,430</u>	<u>1,962,310</u>	<u>(1,781,880)</u>	<u>-90.8%</u>
Total Revenues	<u>\$ 7,925,256</u>	<u>\$ 9,236,904</u>	<u>\$(1,311,648)</u>	<u>-14.2%</u>
Operating Expenses	\$ 6,731,716	\$ 6,305,477	\$ 426,239	6.8%
Non-Operating Expenses	<u>-</u>	<u>101,999</u>	<u>(101,999)</u>	<u>-100.0%</u>
Total Expenses	<u>\$ 6,731,716</u>	<u>\$ 6,407,476</u>	<u>\$ 324,240</u>	<u>5.1%</u>
Increase (Decrease) in Net Assets	\$ 1,193,540	\$ 2,829,428	\$(1,635,888)	-57.8%
Net Assets – Beginning of Year	<u>\$ 39,518,553</u>	<u>\$ 36,689,125</u>	<u>\$ 2,829,428</u>	<u>7.7%</u>
Net Assets – End of Year	<u>\$ 40,712,093</u>	<u>\$ 39,518,553</u>	<u>\$ 1,193,540</u>	<u>3.0%</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 2010, operating revenues increased in 2011 by \$412,415, or 6.6%. This is primarily due to a 3.0% 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 \$(101,999), or (100.0)% in 2011. This is due primarily in the change of EBDA equity booked in 2010 to 2011.

Capital contributions, which include connection fees decreased by \$(1,781,880) or (90.8)% in 2011, primarily due to a one-time contribution by one user received in 2010.

Capital Assets and Debt Administration

Table A-3
Condensed Summary of Capital Assets

	2011	2010	Amount of Increase of	Percentage Increase of (Decrease)
Land	\$ 337,168	\$ 337,168	\$ -	0.0%
Construction in Progress	7,039,907	3,828,554	3,211,352	83.9%
Subsurface Lines	13,416,975	13,416,975	-	0.0%
Wastewater Collection Facilities	1,349,722	1,349,722	-	0.0%
Wastewater Treatment Facilities	17,255,246	17,207,322	47,924	0.3%
General Plant & Admin. Facilities	<u>3,120,888</u>	<u>3,011,683</u>	<u>109,205</u>	<u>3.6%</u>
Total Capital Assets	<u>\$ 42,519,906</u>	<u>\$ 39,151,424</u>	<u>\$ 3,368,481</u>	<u>9.6%</u>
Less Accumulated Depreciation:				
Subsurface Lines	4,892,888	4,714,062	178,826	3.8%
Wastewater Collection Facilities	662,007	626,609	35,398	5.6%
Wastewater Treatment Facilities	8,467,875	7,818,941	648,934	8.3%
General Plant & Admin. Facilities	<u>1,612,157</u>	<u>1,483,196</u>	<u>128,961</u>	<u>8.7%</u>
Total Accumulated Depreciation	<u>\$ 15,634,927</u>	<u>\$ 14,642,808</u>	<u>\$ 992,119</u>	<u>6.8%</u>
Total Net Capital Assets	<u>\$ 26,884,979</u>	<u>\$ 24,473,675</u>	<u>\$ 2,411,304</u>	<u>9.9%</u>

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 3 to the financial statements. Construction in Progress increased in 2011 by \$3,211,352 or 83.9% 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 2011 was \$588,384. The District found it prudent to increase sewer service user fees by \$7 for the year 2011/2012, even with this increase the District has the second lowest residential sewer service fee in Alameda County, at \$252 per year. The average Alameda County sewer service fee is \$433 and the statewide average is \$406.

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.

BASIC FINANCIAL STATEMENTS

Castro Valley Sanitary District
Statements of Net Assets
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash & cash equivalents	\$ 1,561,640	\$ 552,290
Investments	9,227,264	11,384,362
Accounts receivable	111,809	75,856
Interest receivable	8,577	11,929
Net OPEB Asset	37,930	-
Due from other government agencies	589,835	492,799
Total current assets	11,537,055	12,517,236
Noncurrent assets:		
Property and equipment, net of accumulated depreciation	26,884,979	24,508,613
Total noncurrent assets	26,884,979	24,508,613
Other assets:		
Equity in East Bay Dischargers Authority (EBDA) - Joint Powers	3,703,535	3,703,535
Total assets	\$ 42,125,569	\$ 40,729,384
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,005,926	\$ 809,819
Accrued payroll liabilities	202,046	169,820
Current portion of deferred revenue	25,688	25,688
Total current liabilities	1,233,660	1,005,327
Long-term liabilities:		
Deferred revenue	179,816	205,504
Total liabilities	1,413,476	1,210,831
Net assets:		
Invested in capital assets	26,884,979	24,508,613
Invested in East Bay Dischargers Authority (EBDA) - Joint Powers	3,703,535	3,703,535
Restricted for:		
Measure D - solid waste	124,348	132,025
Unrestricted	9,999,231	11,174,380
Total net assets	40,712,093	39,518,553
Total liabilities and net assets	\$ 42,125,569	\$ 40,729,384

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, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Service charges and fees	\$ 5,576,336	\$ 5,259,576
Permits and inspection fees	18,884	12,070
Contract administration fees	1,027,065	906,451
Other services	1,295	33,068
Total operating revenues	6,623,580	6,211,165
OPERATING EXPENSES		
Wastewater collection	1,744,685	1,384,719
Wastewater treatment	2,615,466	2,532,031
Wastewater disposal	283,018	257,826
Solid waste disposal	287,924	285,719
Solid waste diversion - Measure D	219,318	220,887
Administration and general	1,581,305	1,624,295
Total operating expenses	6,731,716	6,305,477
Operating income (loss)	(108,136)	(94,312)
NONOPERATING REVENUES/ EXPENSES		
Aid from other governmental agencies	318,915	276,262
Annexation fees	-	-
Property taxes	588,384	576,893
Interest income	100,908	102,894
Other revenues	75,609	107,380
Change in equity of EBDA Joint Powers	-	(95,338)
Other revenue/ (expenses)	37,430	(6,661)
Total nonoperating revenues/ expenses	1,121,246	961,430
Income before contributions	1,013,110	867,118
Capital contributions - connection fees	180,430	1,962,310
Change in net assets	1,193,540	2,829,428
NET ASSETS:		
Beginning of year	39,518,553	36,689,125
End of year	\$ 40,712,093	\$ 39,518,553

See accompanying Notes to Basic Financial Statements.

Castro Valley Sanitary District
Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from sewer customers	\$ 5,689,238	\$ 5,743,413
Contract administrative fees	872,701	768,056
Payments for employee services and benefits	(2,230,038)	(1,831,033)
Payments for services and supplies	(3,319,250)	(3,103,908)
Net cash provided by operating activities	1,012,651	1,576,528
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Aid from other governmental agencies	221,879	93,511
Property taxes	588,384	576,893
Connection fees and donated assets	180,430	1,962,310
Other revenue and expenses (net)	113,040	100,720
Net cash provided by noncapital financing activities	1,103,733	2,733,434
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction and fixed asset additions	(3,368,482)	(2,152,571)
Net cash used by capital and related financing activities	(3,368,482)	(2,152,571)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of long-term investments	(1,000,000)	(1,000,000)
Interest received	104,350	126,842
Net cash provided (used) by investing activities	(895,650)	(873,158)
Net change in cash and cash equivalents	(2,147,748)	1,284,233
CASH AND CASH EQUIVALENTS:		
Beginning of year	10,936,652	9,652,419
End of year	\$ 8,788,904	\$ 10,936,652
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash	\$ 1,561,640	\$ 552,290
Investments	9,227,264	11,384,362
Cash and investments	10,788,904	11,936,652
Less investments with original maturities in excess of three months	2,000,000	1,000,000
Cash and cash equivalents	\$ 8,788,904	\$ 10,936,652
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (108,136)	\$ (94,312)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	992,115	1,097,894
(Increase) decrease in:		
Accounts receivable	(35,953)	325,992
Accounts payable	196,107	251,439
Accrued payroll liabilities	32,226	21,203
Deferred revenue	(25,688)	(25,688)
Net cash provided by operating activities	\$ 1,050,671	\$ 1,576,528

See accompanying Notes to Basic Financial Statements.

Castro Valley Sanitary District
Statements of Net Assets
Fiduciary Fund
For the year ended June 30, 2011

	<u>2011</u>	<u>2010</u>
Jensen Rd. Assessment District #5		
ASSETS		
Cash and investments	\$ 43,675	\$ 16,608
Receivables	<u>35,155</u>	<u>32,923</u>
Total assets	<u>\$ 78,830</u>	<u>\$ 49,531</u>
LIABILITIES		
Other accrued liabilities	<u>\$ 78,830</u>	<u>\$ 49,531</u>
Total liabilities	<u>\$ 78,830</u>	<u>\$ 49,531</u>

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, 2011

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Jensen Rd. Assessment District #5				
Assets:				
Cash and investments	\$ 16,608	\$ 66,817	\$ 39,750	\$ 43,675
Receivables	32,923	18,451	16,219	35,155
Total assets	\$ 49,531	\$ 85,268	\$ 55,969	\$ 78,830
Liabilities:				
Due to bondholders	\$ 49,531	\$ 85,268	\$ 55,969	\$ 78,830
Total liabilities	\$ 49,531	\$ 85,268	\$ 55,969	\$ 78,830

See accompanying Notes to Basic Financial Statements.

Castro Valley Sanitary District
Notes to Basic Financial Statements
For the years ended June 30, 2011 and 2010

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 upon 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 considered a part of the District's basic financial statements.

The District's share of the 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 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 District has a fiduciary responsibility for oversight of these funds but these funds can not be used to support District operations.

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 years ended June 30, 2011 and 2010

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.

The District's Investment Policy requires that the assets of the District should be invested only in 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, 2011 and 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.

Castro Valley Sanitary District
Notes to Basic Financial Statements, Continued
For the years ended June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2011 and 2010, management believes no allowance for doubtful accounts is necessary due to historical experience and the nature of the receivables.

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. 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 \$126,979 and \$108,887 as of June 30, 2011 and 2010, respectively, is included within accrued payroll liabilities on the Statements of Net Assets.

G. Deferred Revenue

In 1999, one developer deposited \$513,760 with the District to offset pump station maintenance costs that will be incurred over 20 years. These amounts have been deferred and are being recognized as revenue ratably over the 20-year period. Amortization for both fiscal year 2010 and 2011 are \$25,688. The unamortized portion is \$205,504 as of June 30, 2011 and \$231,192 as of June 30, 2010.

Castro Valley Sanitary District
Notes to Basic Financial Statements, Continued
For the years ended June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Net Assets / Fund Balance

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

Invested in Capital Assets – This amount consists of capital assets net of accumulated depreciation. There is no related debt outstanding as of June 30, 2011 and 2010.

Invested in East Bay Dischargers Authority – This amount consists of the District’s share of net assets in the East Bay Dischargers Authority.

Restricted Net Assets – These amount are generally restricted by external creditors, grantors, contributors, laws or regulations of other governments. Restricted net assets include funds for Measure D projects.

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 wastewater reserves and are restricted for future capacity expansion projects.

K. Rate Charge Calendar

The District’s sewer service charges are included 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, 2011 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 years ended June 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. 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.

2. CASH AND INVESTMENTS

At June 30, 2011 and 2010, the District's pooled cash and investments are classified in the accompanying financial statements as follows:

	2011	2010
Business-Type Activities:		
Cash:		
Cash on hand	\$ 750	\$ 750
Cash in Bay Commercial Bank	1,453,445	444,657
Cash with Alameda County	107,445	106,883
Total cash	1,561,640	552,290
Certificates of Deposit (FDIC Insured)	2,000,000	1,000,000
State of California Local Agency Investment Fund (not rated)	7,227,264	10,384,362
Total cash and investments	\$ 10,788,904	\$ 11,936,652
Fiduciary Fund:		
Restricted cash & Investments	\$ 43,675	\$ 16,608

Custodial Credit Risk – Deposits and investments – Custodial credit risk for deposits is the risk that in the event of a bank failure, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of a failure of the counter party (e.g. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Neither the California Government Code nor the County's investment policy contains legal or policy requirements that would limit the District's exposure to custodial credit risk for deposits and investments, except that 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 has waived the collateralization requirements.

Castro Valley Sanitary District
Notes to Basic Financial Statements, Continued
For the years ended June 30, 2011 and 2010

2. CASH AND INVESTMENTS, Continued

The County's investment pool operates in accordance with appropriate state laws and regulations. The fair value of the District's position in the pool is not the same as the value of the pooled shares. The method used to determine the value of participants' equity withdrawn is based on the book value, amortized cost plus accrued interest, multiplied by the District's percentage at the date of such withdrawal. County deposits are not required to be categorized or rated under state law. State statutes authorize Counties to investments in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

As of June 30 2011, the District had \$7,227,264 invested in LAIF, which had invested 3.19% 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.

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.

Credit Risk - Investments - Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The County's investment pool credit risk rating can be obtained from the County's annual financial statements available.

Interest Rate Risk - Investments - Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. One of the ways that the County of Alameda and LAIF manage their exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so a portion of their portfolios are maturing or coming close to maturity to ensure the cash flow and liquidity of operations. This information can be obtained from the County and LAIFs annual financial statements as noted above.

Castro Valley Sanitary District
Notes to Basic Financial Statements, Continued
For the years ended June 30, 2011 and 2010

3. PROPERTY, PLANT AND EQUIPMENT

Changes in the District's property, plant, and equipment and accumulated depreciation for the year ended June 30, 2011 are summarized as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011
Capital assets not being depreciated:				
Land	\$ 337,168	\$ -	\$ -	\$ 337,168
Construction in progress	3,828,555	3,211,352	-	7,039,907
Total assets not being depreciated	4,165,723	3,211,352	-	7,377,075
Capital assets being depreciated:				
Subsurface line	13,416,975	-	-	13,416,975
Wastewater collection facilities	1,349,722	-	-	1,349,722
Wastewater treatment facilities	17,207,322	47,924	-	17,255,246
General plant/ admin facilities	3,011,682	109,206	-	3,120,888
Total assets being depreciated	34,985,701	157,130	-	35,142,831
Total capital assets	39,151,424	3,368,482	-	42,519,906
Less accumulated depreciation:				
Subsurface line	(4,714,063)	(178,825)	-	(4,892,888)
Wastewater collection facilities	(626,610)	(35,397)	-	(662,007)
Wastewater treatment facilities	(7,818,941)	(648,934)	-	(8,467,875)
General plant/ admin facilities	(1,483,197)	(128,960)	-	(1,612,157)
Total accumulated depreciation	(14,642,811)	(992,116)	-	(15,634,927)
Net property, plant and equipment	\$ 24,508,613	\$ 2,376,366	\$ -	\$ 26,884,979

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 are 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 years ended June 30, 2011 and 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 using 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 most recently available audited financial statements of EBDA for its fiscal year ending June 30, 2010:

	2010
Total fund equity - beginning of year	\$ 36,136,117
Net income before depreciation	390,473
Depreciation	(898,547)
Decrease in fund equity	(508,074)
Total fund equity - end of year	35,628,043
Comprised of:	
Total assets	36,021,695
Less total liabilities	(393,652)
Total cash and cash equivalents	\$ 35,628,043

Castro Valley Sanitary District
Notes to Basic Financial Statements, Continued
For the years ended June 30, 2011 and 2010

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

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

	2011	2010
Equity in EBDA - beginning of year	\$ 3,703,535	\$ 3,798,873
Decrease in equity	-	(95,338)
Equity in EBDA - end of year	\$ 3,703,535	\$ 3,703,535

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, 2011 and 2010, 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, 2011 and 2010, the District 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 CalPERS Board of Administration. The required funding rates and related information are as follows:

	2011	2010	2009
Total required contribution rate	19.644%	20.042%	19.189%
Total payroll expense	\$ 1,339,780	\$ 1,133,855	\$ 1,017,462
Covered payroll expense	1,245,376	1,039,451	923,351
Actual pension cost (APC)	244,891	208,437	177,182
Annual required contribution (ARC)	244,891	208,437	177,182
Actual contribution	244,891	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 years ended June 30, 2011 and 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
6/30/2007	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%
6/30/2009	1,674,260,302	2,140,438,884	466,178,582	57.2%	440,071,499	105.9%

Actuarial Valuation: Plan expenses are recorded in the financial statements as of and for the years ended June 30, 2011 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, 2011 and 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 years ended June 30, 2011 and 2010

6. CALPERS 457 DEFERRED COMPENSATION PLAN, Continued

During the fiscal years ended June 30, 2011 and 2010, total contributions were \$73,255 and \$66,286, of which \$21,800 and \$22,185, respectively, were the District's matching contributions.

The following reflects transactions in the Plan for the year:

	2011	2010
Beginning balance	\$ 569,979	\$ 468,804
Contributions	70,828	63,871
Earnings	165,200	67,304
Withdrawals/other	(8,894)	(30,000)
Ending balance	\$ 797,113	\$ 569,979

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, 2011 Net OPEB Obligation (Asset):

Net OPEB Obligation June 30, 2010	\$ -
Annual OPEB Cost	124,500
Contributions 2010/2011	(162,430)
Estimated NET OPEB Obligation (Asset) June 30, 2011	<u>\$ (37,930)</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 years ended June 30, 2011 and 2010

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 second 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 Projected Unit Credit (PUC) actuarial cost method. Under the PUC method, an equal share of the present value of future benefits is allocated to each past and future year 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 years ended June 30, 2011 and 2010

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, Property Damage, and Workers' Compensation programs. In the last four years, the District did not have any claims exceeding the insurance coverage. Therefore, no claim liabilities were recorded.

As of June 30, 2011, 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	24,876,436
Mobile equipment	2,000	529,286
Employee dishonesty bond	1,000	100,000
Workers' Compensation	-	750,000
Excess Workers' Compensation		1,000,000

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, 2011 and 2010, bonds payable on the outstanding debt was \$135,000 and \$165,000, respectively. Restricted cash held for Assessment District expenses and debt at June 30, 2011 and 2010 was \$43,675 and \$16,608, 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 years ended June 30, 2011 and 2010

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, 2011, the trust account balance was \$819,665. 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 at risk to be a defendant in various lawsuits which arise in the normal course of business. In the fiscal year ended June 30, 2011, there were two notices of potential claims and both were in negotiations. Potential claims may be in excess of \$2.4 million.

REQUIRED SUPPLEMENTARY INFORMATION

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

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, 2011 and 2010

	Wastewater Operations					
	Collection	Collection	Treatment	Treatment	Disposal	Disposal
	2011	2010	2011	2010	2011	2010
OPERATING REVENUES						
Service charges and fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Permits and inspection fees	-	-	-	-	-	-
Contract administration fees	-	-	-	-	-	-
Other services	-	-	-	-	-	-
Total operating revenues	-	-	-	-	-	-
OPERATING EXPENSES						
Salaries	704,712	488,943	-	-	-	-
Employee benefits	336,812	271,623	-	-	-	-
Gasoline and oil	12,431	13,566	-	-	-	-
Insurance and claims	-	18,239	-	-	-	-
Membership	10,050	8,965	-	-	-	-
Office expense	9,614	4,108	-	-	-	-
Supplies	25,600	30,118	-	-	-	-
Professional and contractual services	53,803	12,576	-	-	-	-
Rent and leases	20,040	432	-	-	-	-
Repairs and maintenance	144,674	102,530	-	-	-	-
Utilities	20,201	20,628	-	-	-	-
Renewal and replacement	58,600	67,837	54,948	299,649	50,050	49,335
Wastewater treatment - OLSA	-	-	1,911,584	1,513,730	-	-
Wastewater disposal - EBDA	-	-	-	-	232,968	208,491
Printing and publications	51,669	11,490	-	-	-	-
Director and election expense	-	-	-	-	-	-
Travel and car allowance	13,897	8,624	-	-	-	-
	1,462,103	1,059,679	1,966,532	1,813,379	283,018	257,826
Depreciation expense	282,582	325,040	648,934	718,652	-	-
Total operating expenses	\$ 1,744,685	\$ 1,384,719	\$ 2,615,466	\$ 2,532,031	\$ 283,018	\$ 257,826
OPERATING INCOME (LOSS)						
NONOPERATING 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 nonoperating revenues/contributions (expenses)						
Change in net assets						

Total Wastewater	Total Wastewater	Solid Waste	Solid Waste	Administration	Administration	Total	Total
2011	2010	2011	2010	2011	2010	2011	2010
\$ 5,576,336	\$ 5,259,576	\$ -	\$ -	\$ -	\$ -	\$ 5,576,336	\$ 5,259,576
18,884	12,070	-	-	-	-	18,884	12,070
-	-	1,027,065	906,451	-	-	1,027,065	906,451
1,295	33,068	-	-	-	-	1,295	33,068
5,596,515	5,304,714	1,027,065	906,451	-	-	6,623,580	6,211,165
704,712	488,943	208,563	229,157	431,662	436,591	1,344,937	\$ 1,154,691
336,812	271,623	123,194	87,261	419,391	338,661	879,397	697,545
12,431	13,566	-	-	-	-	12,431	13,566
-	18,239	-	-	129,994	115,854	129,994	134,093
10,050	8,965	225	602	9,988	13,336	20,263	22,903
9,614	4,108	3,613	504	38,747	34,816	51,974	39,428
25,600	30,118	19,173	2,888	-	-	44,773	33,006
53,803	12,576	16,902	8,263	238,454	464,076	309,249	484,915
20,040	432	-	-	5,956	1,352	25,996	1,784
144,674	102,530	300	2,107	56,838	32,525	201,812	137,162
20,201	20,628	224	-	34,572	27,941	54,997	48,569
163,598	416,821	-	-	-	-	163,598	416,821
1,911,584	1,513,730	-	-	-	-	1,911,584	1,513,730
232,968	208,491	-	-	-	-	232,968	208,491
51,669	11,490	128,528	172,452	20,657	5,786	200,854	189,728
-	-	-	-	106,115	72,655	106,115	72,655
13,897	8,624	6,520	3,372	28,332	26,500	48,749	38,496
3,711,653	3,130,884	507,242	506,606	1,520,706	1,570,093	5,739,691	5,207,583
1,975,208	1,043,692	-	-	60,599	54,202	992,115	1,097,894
5,686,861	4,174,576	507,242	506,606	1,581,305	1,624,295	6,731,806	6,305,477
(90,346)	1,130,138	519,823	399,845	(1,581,305)	(1,624,295)	(108,226)	(94,312)
180,430	1,962,310	-	-	-	-	180,430	\$ 1,962,310
-	-	-	-	-	-	-	-
-	-	318,915	276,262	-	-	318,915	276,262
-	-	-	-	-	-	-	-
-	-	-	-	588,384	576,893	588,384	576,893
49,445	75,754	4,036	4,632	47,427	22,508	100,908	102,894
75,609	107,380	-	-	-	-	75,609	107,380
-	(95,338)	-	-	-	-	-	(95,338)
-	-	-	-	37,430	(6,661)	37,430	(6,661)
305,484	2,050,106	322,951	280,894	673,241	592,740	1,301,676	2,923,740
\$ 215,138	\$ 3,180,244	\$ 842,774	\$ 680,739	\$ (908,064)	\$ (1,031,555)	\$ 1,193,450	\$ 2,829,428

This page intentionally left blank.