

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

BASIC FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

**PREPARED BY THE
FINANCE DEPARTMENT**

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**DELTA DIABLO
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2015 and 2014**

Table of Contents

INTRODUCTORY SECTION

Table of Contents.....i

FINANCIAL SECTION

INDEPENDENT AUDITOR’S REPORT..... 1

MANAGEMENT’S DISCUSSION AND ANALYSIS..... 3

BASIC FINANCIAL STATEMENTS

Statements of Net Position 16

Statements of Revenues, Expenses and Changes in Net Position..... 18

Statements of Cash Flows..... 19

NOTES TO BASIC FINANCIAL STATEMENTS..... 21

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Net Pension Liability and Related Ratios (Miscellaneous) 48

Schedule of Contributions (Miscellaneous)..... 49

SUPPLEMENTARY INFORMATION

Supplementary Schedule of Net Position –
Proprietary Fund Type Enterprise Funds..... 52

Supplementary Schedule of Revenues,
Expenses and Changes in Net Position – Proprietary Fund Type Enterprise Funds 54

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Delta Diablo
Antioch, California

We have audited the accompanying financial statements of the business-type activities of the Delta Diablo (District) as of and for the years ended June 30, 2015 and June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of each major fund of the Delta Diablo as of June 30, 2015 and 2014, and the respective changes in the financial positions and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 2015 that required a prior period adjustment to the financial statements, as discussed in Note 8 to the financial statements:

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*

The emphasis of these matters does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Maye + Associates

Pleasant Hill, California
December 3, 2015

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

The intent of the management's discussion and analysis (MD&A) is to provide a narrative overview and analysis of the financial activities of Delta Diablo Sanitation District for the fiscal year ended June 30, 2015.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This section is intended to serve as an introduction to be read in conjunction with Delta Diablo's (District) basic financial statements. The District-wide financial statements are shown on pages 16-43. The District's basic financial statements are comprised of two components: 1) Fund Financial Statements and 2) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

The *Statement of Net Position* presents information on all of the District's assets *plus* deferred outflows of resources *minus* liabilities *plus* deferred inflows of resources, the net difference reported as *Net Position*. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of Delta Diablo is improving or deteriorating.

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

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

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

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

FINANCIAL HIGHLIGHTS

- The District's combined net position totaled \$153.7 million.
- Beginning Net Position adjustment due to pensions of \$11.8 million.
- During the fiscal year, total net position decreased by \$5.4 million or 3%.
- Total assets plus deferred outflow increased by \$4.0 million or 2%
- Total liabilities plus deferred inflow increased by \$9.5 million or 37%
- Total revenues were \$33.0 million, an increase of \$1.8 million or 6%.
- Total expenses were \$28.9 million, a decrease of \$1.2 million or 4%.
- Capital contributions were \$2.3 million, a decrease of \$1.4 million or 38%

FINANCIAL ANALYSIS

Statement of Net Position. As noted earlier, the changes in net position serve as a useful indicator of Delta Diablo Sanitation District's financial position over time. The District's remains financially sound with combined total net position as of June 30, 2015 at \$153.7 million. For the current fiscal year, the District's net position has decreased by \$5.4 million. The last two fiscal years prior, the District's net position has increased by \$4.8 million or 3%, and decreased by \$0.3 million or 3%, respectively.

The current fiscal year's decrease in total net position is a net result of capital contributions (\$2.3 million) plus income before contributions (\$4.1 million) *minus* the beginning balance net position adjustment (\$11.8 million) due to the implementation of the Government Accounting Standards Board (GASB) 68 for pensions. This will be further discussed in the Statement of Revenue, Expenses, and Changes in Net Position section of this analysis. Overall, the District's total assets plus deferred outflow exceeded total liabilities plus deferred inflows by \$153.7 million. This positive result is indicative of the District's strong financial position. The largest portion of Delta Diablo Sanitation District's net position (81%) is net investment in capital assets (land, treatment and collection facilities, machinery and equipment) net of related debt. These capital assets are necessary to provide services to District rate payers, so these assets are not available for future spending. For the current fiscal year, these assets decreased by \$1.9 million primarily due to lesser investments made in total capital assets compared to the prior fiscal year. An additional portion of the District's net position (1.0%) represents resources that are subject to external restrictions as to how these resources may be used such as for debt service and for capital projects. The restricted net position remained steady at \$2.1 million for this fiscal year compared to the prior fiscal year. The remaining balance of the District's net position (18%) represents the unrestricted portion of the net position. Unrestricted net position decreased by \$3.5 million for the current year for a total of \$27.6 million. The decrease in unrestricted net position is primarily correlated to the corresponding decrease in the net investment in capital assets and the adjustment due to GASB 68 implementation offset by positive operating results for the year. Unrestricted net position is a direct result of the District's cumulative operating and non-operating activities, thereby providing additional resources available for the District's use in future periods.

Assets Plus Deferred Outflows and Liabilities Plus Deferred Inflows. Total assets plus deferred outflows increased by \$4.0 million or 2%, and total liabilities plus deferred inflows increased by \$9.5 million or 37%; resulting in a net decrease of total net position for the current fiscal year by \$5.4 million compared to last fiscal year. The District's deferred outflows and inflows balances as of June 30, 2015 are primarily due to the GASB68 implementation related to pensions.

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

Assets Plus Deferred Outflows. Total assets increased (\$2.4 million) is a net result of the increase current and other assets, partially offset by the decrease in capital assets (net). For fiscal year end (FYE) 2015, current and other assets increased by \$5.3 million (12%) from the prior fiscal year primarily due to increases in cash, unrestricted and designated investments, accounts receivable, materials and supplies, prepaid expenses, and net Other Post Employment Benefit (OPEB) assets, partially offset by decreases in notes receivable. The net increase in the designated investments is primarily due to additional funds set aside by the District Board for the advanced treatment process project in anticipation of more stringent future regulatory requirements offset by the decrease in funds set aside for related employee benefit costs. The decrease in designated funds for related employee benefit costs is due to the required annual payment transfers to Contra Costa County Employees

Retirement Association (CCCERA) in accordance with the termination agreement to pay for the District's unfunded obligation (see note 2I for additional information). Increases in accounts receivable are primarily due to timing of when invoices are billed and paid by the District's customers in the current fiscal year compared to the prior fiscal year. Net OPEB assets increased due to additional contributions made to the OPEB trust fund from the prior fiscal year's unspent contingency and operational savings as directed by the District Board as well as employee and required District contributions for the year. The decrease in notes receivable is largely due to scheduled principal and interest payments made by the Cities of Antioch and Pittsburg for their share of their respective recycled water distribution systems' project costs. Capital assets (net) decreased by \$2.9 million or 2% compared to prior year due to higher depreciation and retirements, partially offset by the additional capital expenditures in the current year. Capital assets (net) will be discussed further in the capital assets section of this analysis.

Deferred outflows of resources of \$1.6 million are related to pensions under the GASB68 implementation (first year) and represents District contributions in the current fiscal year after the measurement date of June 30, 2014. Details regarding deferred outflows of resources related to pensions can be found in Note 8-Pensions.

Liabilities Plus Deferred Inflows. The net increase in total liabilities of \$7.2 million or 28% was attributable to the recognition of the District's net pension liability of \$10.3 million under GASB68, partially offset by the decrease in other long-term debt (net) of \$3.1 million. Current and other liabilities remain relatively unchanged from the prior year. The decrease in other long-term debt was due scheduled principal and interest payments towards the debt obligations for the year. Deferred inflows of resources (\$2.3 million) is the unamortized pension liability as of FYE 2015 per the GASB68 implementation requirement for pensions. Additional information on long-term debt and net pension liability are discussed in the debt section of this analysis as well as in Note 7-Debt and Note 8-Pensions.

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

The following tables are shown in comparative format for fiscal year ended June 30, 2015, 2014 and 2013 with variances shown as percentages for analysis.

Condensed Statement of Net Position

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Current and other assets	\$49,098,936	\$43,789,242	\$38,486,543	12%	14%
Capital assets (<i>net</i>)	137,848,523	140,755,638	144,586,963	(2)%	(3)%
Total assets	<u>\$186,947,459</u>	<u>\$184,544,880</u>	<u>\$183,073,506</u>	1%	1%
Deferred outflow of resources	<u>\$1,641,445</u>	<u>\$0</u>	<u>\$0</u>		
Current and other liabilities	\$7,747,446	\$7,736,462	\$7,521,700	0%	3%
Long-term debt (<i>net</i>)	24,829,730	17,651,126	21,182,111	41%	(17)%
Total liabilities	<u>\$32,577,176</u>	<u>\$25,387,588</u>	<u>\$28,703,811</u>	28%	(12)%
Deferred inflows of resources	<u>\$2,288,995</u>	<u>\$0</u>	<u>\$0</u>		
Net position					
Net investment in capital assets	\$123,992,770	\$125,917,417	\$128,104,632	(2)%	(2)%
Restricted	2,087,120	2,088,848	2,088,821	0%	0%
Unrestricted	<u>27,642,843</u>	<u>31,151,027</u>	<u>24,176,242</u>	(11)%	29%
Total net position	<u>\$153,722,733</u>	<u>\$159,157,292</u>	<u>\$154,369,695</u>	(3)%	3%

Statement of Revenue and Expenses and Changes in Net Position. This statement measures the success of the District's over-all operations for the fiscal year and shows cost recovery from user fees and other charges. For the current fiscal year, FYE 2015, the District's revenues exceeded its expenses by \$6.4 million. In FYE 2014, the District's revenue exceeded its expenses by \$4.8 million and conversely in the prior year FYE 2013, the District expenses exceeded its revenue by \$0.3 million.

This fiscal year's positive result was primarily due primarily to a combination of decreased salaries and benefits costs, chemical and utility costs plus increased service charges and property tax revenue this year compared to the prior year.

Revenue. Total revenue, excluding capital contributions, for the current fiscal year was \$33 million, an increase of \$1.8 million, or 6.0%, over the prior year results. In FYE 2015, District revenues remained strong and consistent with prior years' results. Total revenue for FYE 2014 and FYE 2013 were \$31.2 million and \$30.4 million, respectively.

Total revenue, excluding capital contributions was a direct result of increases in service charges of \$1.5 million (5%) and slight increases in property taxes of \$0.3 million and interest income partially offset with decreases in other operating revenue due to a slight decrease in work for others and discharge permits.

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

FYE 2015 service charges remained strong at \$28.6 million, or 5% higher than FYE 2014 at \$27.2 million, which was 5% higher than FYE 2013. The gradual moderate increases in wastewater sewer service rates are consistent with the rate model approved by the District Board each fiscal year and ensures consistent delivery of services with the least possible impact to its rate payers. The current year increase in wastewater service charges is primarily due to a total of 6.5% increase in wastewater sewer service charges approved by the Board plus modest growth in services provided. 2.7% of the 6.5% rate increase is in preparation for the new advanced treatment plant that is anticipated to be built due to more stringent regulatory guidelines. A Board designated reserve fund for this project was established beginning in fiscal year 2011/12. For the fiscal year, overall Recycled water service charges slightly decreased by 13% primarily due to lower recycled water variable charges consistent with the lower recycled water consumption by its customers primarily Calpine (largest recycled water customer) for this fiscal year compared to the prior fiscal year. Calpine in the last quarter of the fiscal year had a scheduled plant shutdown for major rehabilitation and maintenance, which consequently reduced the amount of recycled water that was consumed for the fiscal year.

The net decrease in other operating revenues (1%) was primarily due to decreases in work for others (2%) and discharge permits (5%), partially offset by higher household hazardous waste (HHW) operating fees (3%). Miscellaneous revenue remained relatively unchanged this year compared to prior fiscal year. Both the work for others and miscellaneous revenue can vary from year-to-year depending on the operating activities related to large multi-agency collaborative and/or multi-year projects as well as when additional non-recurring revenues are collected. Discharge permits were slightly lower this year due to a moderate decrease in both the number of major and minor discharge permits issued; HHW operating fees increased due to increased reimbursements from partner agencies and e-waste revenue this year compared to the prior fiscal year.

Other operating revenue in FYE 2015 was \$2.1 million, compared to \$2.2 million and \$2.7 million for the prior two fiscal years, respectively.

Property taxes and assessments increased slightly by 16% for FYE 2015 at \$2.0 million, compared to \$1.7 million and \$1.6 million for the prior two fiscal years, respectively. The increase experienced was primarily due to moderate growth in all the three zones the District serves, with the City of Antioch having the highest growth at 27%, partially offset by reduced redevelopment funds received this year. The housing market started to pick up moderately compared to the downward trend from the housing bubble experienced in the prior years. Interest income (\$0.2 million) had a slight increase in the current fiscal year despite the continued low interest rate yields from investments and is consistent with the short-term interest rate market. Interest income for each of the prior fiscal years FYE 2014 and FYE 2013 was slightly less than \$0.2 million.

Total capital contributions are comprised of capital facilities capacity charges (CFCC)/connections fees, and other capital contributions received from intergovernmental funding sources. Compared to the prior fiscal year, total capital contributions decreased by \$1.4 million, or 38%. This decrease is primarily due to a decrease in total CFCC/connection fees of 14% coupled with a decrease in other capital contribution/grant revenue of 75% million compared to the prior year.

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

CFCC revenues are one-time charges assessed to connect to the District's waste water system. These revenues are used to construct expansion projects to serve growth in the District's service area and to pay annual debt service associated with previous expansion projects. CFCC totaled \$1.9 million for FYE 2015, 14 % lower than the prior year largely due to lower residential connections (34%) offset by an increase in the number of commercial connections (287%). This year's total equivalent residential unit (ERU) additions were 410 compared to 477 new ERUs in FYE 2014 and 484 ERUs in FYE 2013. FYE 2013 represents the total highest CFCC connections collected since FYE 2009. For both FYE 2014 and FYE 2013, CFCC revenue was at \$2.3 million.

Other capital contributions/grant revenue can fluctuate from year-to-year depending on project activities and availability of funds primarily from Federal and State agencies. Despite a challenging year for securing Federal and State grants, for FYE 2015, the District received a total of \$0.4 million of other capital contributions. This includes a State grant for \$0.2 million, plus \$0.2 million from sub-grants. There was no Federal grant secured for FYE 2015. Other capital contributions for FYE 2014 and 2013 were \$1.4 million and \$0.5 million, respectively.

Expenses. Combined expenses for FYE 2015 totaled \$28.9 million, a decrease of \$1.2 million, or 4%, from prior year. Total expenses for FYE 2014 and FYE 2013 were \$30.1 million and \$33.4 million, respectively.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Service charges	\$28,626,113	\$27,151,658	\$25,824,829	5%	5%
Other operating revenues	2,147,690	2,161,304	2,677,605	(1)%	(19)%
Property Taxes	1,974,773	1,698,185	1,627,706	16%	4%
Interest income	207,369	174,179	189,139	19%	(8)%
Other non-operating revenues	40,159	36,125	56,507	11%	(36)%
Total revenues	\$32,996,104	\$31,221,451	\$30,375,786	6%	3%
Salaries and benefits	\$12,304,139	\$13,500,132	\$17,593,719	(9)%	(23)%
Chemicals and utilities	2,567,767	2,767,263	2,755,742	(7)%	0%
Depreciation and amortization	6,959,201	6,821,159	6,506,348	2%	5%
Other operating expenses	6,352,457	5,911,463	5,683,360	7%	4%
Interest expense	735,098	695,818	868,105	6%	(20)%
Other non-operating expenses	\$0	415,681	\$0	(100)%	0%
Total expenses	\$28,918,662	\$30,111,516	\$33,407,274	(4)%	(10)%
Income (loss) before capital contributions	\$4,077,442	\$1,109,935	(\$3,031,488)	267%	(137)%
Add: Capacity charges - connection fees	1,926,982	2,250,790	2,280,985	(14)%	(1)%
Add: Other capital contributions	363,704	1,426,873	475,486	(75)%	200%
Changes in net position	\$6,368,128	\$4,787,598	(\$275,017)	33%	(1,841)%
Net position - beginning of year	\$159,157,292	\$154,369,695	\$154,644,712	3%	0%
Less: GASB68 implementation adjustment	(\$11,802,689)	\$0	\$0		
Net position - beginning of year, as restated	\$147,354,604	\$154,369,695	\$154,644,712		
Net position - end of year	\$153,722,733	\$159,157,292	\$154,369,695	(3)%	3%

Total expenses decreased primarily due to reduced salaries and benefits, chemicals and utilities and decrease in other non-operating expenses compared to the prior year. Additionally, there were slight

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

increases in all major other expense categories including depreciation and amortization, other operating expenses and interest expense.

Salaries and benefits totaled \$12.3 million, a decrease of \$1.2 million or 9% compared to the prior fiscal year. This was primarily due to a combination of the following factors: continued savings realized from the one-time \$3.9 million CalPERS side-fund payment made in FYE 2012 and position vacancies, partially offset by moderate increases due to promotions, salary adjustments, merit and cost-of-living adjustments (2.6%). Total salaries and benefits combined for FYE 2014 and FYE 2013 were \$13.5 million and \$17.6 million, respectively.

Other expense categories that increased for FYE 2015 include depreciation expense, other operating and other non-operating expenses and interest expenses. The majority of these increases are due higher costs incurred this year compared to the prior fiscal year.

Depreciation totaled \$7.0 million, increasing by 2%, due to the additional capital assets that depreciated this fiscal year compared to the prior year. Total depreciation for FYE 2014 and FYE 2013 were \$6.8 million and \$6.5 million, respectively. Other operating expenses totaled \$6.3 million, an increase of 7% from last year primarily due to higher operating expenses incurred largely due to higher cost of outside services and maintenance this year compared to the prior year. Other operating expenses for FYE 2014 and FYE 2013 were \$5.9 million and \$5.7 million, respectively. There were no other non-operating expense for this fiscal year compared to last fiscal year where there was a one-time other non-operating expense incurred of \$0.4 million was due to a net loss on fixed asset retirements. Interest expense slightly increased this year compared to prior year and is consistent with the debt payment schedule.

Savings in both chemical and utility costs resulted in a net decrease of \$0.2 million or 7% this fiscal year at \$2.6 million compared to prior year. Lesser chemical costs were primarily due to price decreases for some chemicals and slightly less freight costs. Utilities costs were lower this year due to decreased usage and lower average cost of oil/gas in the marketplace. Total chemicals and utilities combined for FYE 2014 and FYE 2013 were at \$2.8 million for each fiscal year.

CAPITAL ASSETS AND DEBT

Capital Assets. Capital assets (net of depreciation) for FYE 2015, FYE 2014, and FYE 2013 totaled \$137.8 million, \$140.8 million and \$144.6 million, respectively. In the current year, the total decrease in total capital assets (net of depreciation) was 2% or \$2.9 million compared to the prior year. The reduction in total capital assets (net of depreciation) is the result of the decreases in construction in progress and decreases in depreciable capital assets.

Capital Assets (net of accumulated depreciation)

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Land	\$2,719,251	\$2,719,251	\$2,719,251	0%	0%
Construction in progress	5,187,415	7,056,213	13,402,243	(26)%	(47)%
Treatment & collection system <i>(net)</i>	129,171,587	129,930,580	127,681,595	(1)%	2%
Equipment <i>(net)</i>	770,270	1,049,594	783,879	(27)%	34%
Total capital assets <i>(net)</i>	\$137,848,523	\$140,755,638	\$144,586,968	(2)%	(3)%

Construction in progress had a net decrease of \$1.9 million; this is primarily due to additional capital projects that have been completed and capitalized for the fiscal year. Construction in progress totaled

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

\$5.2 million for the fiscal year consistent with the District's implementation of its Capital Improvement Program (CIP). The CIP document identifies the District's capital needs with its corresponding sources of revenue over a five-year horizon and is updated annually.

Depreciable capital assets had a net decrease of \$1.0 million, the net result of \$5.9 million of capital assets added for the year, offset by accumulated depreciation (net of adjustments) for the year of \$6.9 million. Additional depreciable capital assets purchased for the year were primarily due to capital investments (net of disposals) in the treatment and collection systems of \$5.9 million necessary to provide continuous reliable service to its customers.

Each year, the District continues to expand and improve its wastewater treatment, conveyance and collection systems to comply with stricter environmental regulations as well as to minimize sewer overflow and/or any disruptions of service. Major treatment and collection systems purchased and/or constructed by the District (97% of \$5.9 million) for the fiscal year include:

Project Description	Acquisition Costs
Secondary Solids Thickener	\$1,701,922
FOG Receiving Facility	1,441,845
Bay Point Sewer Rehabilitation	1,271,287
Pittsburg RW Line Rehabilitation	1,269,481
Total	\$5,684,536

This year's major construction in progress projects (80% of \$5.2 million) include:

Project Description	Acquisition Costs
Bay Area Biosolids To Energy Project Planning	\$2,535,496
Pittsburg Force Main Improvement	1,335,547
Wastewater Infrastructure Repair & Rehabilitation	290,706
Total	\$4,161,749

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

Debt. Total net debt obligations for FYE 2015, FYE 2014, and FYE 2013 totaled \$29.1 million, \$21.8 million and \$25.4 million, respectively. Outstanding debt increased by \$7.2 million or 33% this year compared to the prior year. This increase was primarily due to net pension liability related to pensions under GASB68 recognized this year of \$10.3 million, partially offset by the net total scheduled principal payments (net of accreted interest) on outstanding debt of \$3.7 million, plus the new 2015 California Energy Commission (CEC) loan drawdown of \$0.6 million as of June 30, 2015. The new 2015 CEC loan secured by the District had a principal amount of \$0.7 million, 15 years term with 1% interest and was for the Fats, Oil and Grease (FOG) Receiving Facility project.

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

The 1991 certificates of participation (COP) and related interest, the 1997, 2010 and 2011 California State Revolving Fund (SRF) loans, and the 2011 installment note payable decrease annually due to scheduled principal payments. The District did not issue any new bonded debt this fiscal year. This outstanding debt previously issued funded improvements, replacements and expansion of the wastewater, recycled water and sewage systems. The 1991 COP will be fully repaid by December 2016. The source of funds for repayment of debt issued for expansion purposes is the capital facility capacity charges/CFCC.

Long-term Debt including Net Pension Liability (net of amortization)

	Fiscal Year Ended June 30			% Increase/(Decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
1991 Certificates of participation (COP)	\$1,327,509	\$2,060,422	\$2,841,714	(36)%	(27)%
1991 COP accreted interest	4,909,838	7,007,460	8,872,598	(30)%	(21)%
1997 State revolving fund loan (SRF)	421,882	627,237	828,955	(33)%	(24)%
2010 SRF loan	5,068,079	5,382,766	5,697,212	(6)%	(6)%
2011 Installment Note Payable	1,764,088	1,923,203	2,072,577	(8)%	(7)%
2011 SRF loan	4,644,195	4,844,593	5,041,873	(4)%	(4)%
2015 California Energy Commission loan	630,000	0	0		
Net Pension Liability *	10,317,451	0	0		
Total long-term debt (<i>net</i>)	\$29,083,041	\$21,845,681	\$25,354,929	33%	(14)%

* Net pension liability under GASB68 requirement on pensions implemented FYE 2015.

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

The latest debt rating review (November 2015) received by the District resulted in the credit rating of AA being re-affirmed by Standard & Poors (S&P). S&P views the outlook for this AA rating as stable and reflects the District's very strong financial performance. S&P pointed out the primary reason for re-affirming for the second time this strong bond rating is the District board's willingness to continue to adjust rates incrementally and the very prudent approach to start collecting and setting aside funds for the advanced treatment plant project in anticipation of nutrient removal regulations. This is evidenced by the continued strong financial performance, debt service coverage and strong liquidity; competitive rates; manageable capital plan with expansion costs historically financed from connection fees; and a stable and diverse customer base largely collected through the County's Teeter Plan.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- Continued slow economic recovery: affects the District's capacity/connection fees, which is based on construction growth and development; and over-all investment income, which is dependent on prevailing market interest rates. Also, the economy may affect the District's ability to collect some fees that are directly billed. Any market losses can potentially affect District investments and OPEB trust fund balances.
- Changes in the State budget and future legislation, including the recent passage of the California Pension Reform Act of 2013 and, although limited, future state borrowing from local governments. The California pension reforms will result in future savings to the District due to lower required employer contribution rates.

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

- Changes in Federal, State budget and legislation could affect the District's ability to secure additional grant funding and low interest loans.
- Changes in assessed property values affects the District's property tax revenue. As the housing market improves, the assessed property values should follow, thereby increasing the District's property tax revenue. Conversely, any decline with the housing market will decrease property values and correspondingly decrease property tax for the District.
- Changes in the Governmental Accounting Standard Board (GASB) pronouncements related to financial reporting including its latest pronouncement GASB 68 pension plan reporting implemented in FYE 2015.

All of these factors to the extent known were considered in preparing the District's budget for FYE 2016.

Next Year's Budget and Rates. The District has a three-year operating budget cycle, with the latest covering FY2015/16 through FY2017/18. The District annually conducts reviews and updates the budget document, and the Board's policy is that the budget appropriation must be adopted by the first meeting in July. The District Board typically adopts budget appropriations annually in June for the upcoming fiscal year starting in July. FY2015/16 is the first year of the current three-year operating budget cycle adopted on July 8, 2015.

In July 2015, the Board adopted the FY2015/16 operating budget with a total District budget expense appropriation of \$52.0 million. As part of that action, the Board also authorized short-term borrowings between funds, which will be re-paid with interest. An inter-fund loan of up to \$1.0 million from the wastewater capital asset replacement fund to the wastewater expansion fund was approved by the Board. The wastewater expansion fund is projected to use more funds than available during FY 2015/16 primarily due to anticipated CFCC revenues being lower than scheduled debt service payments. As discussed in the Debt section of this report, the 1991 COP will fully mature in December 2016. After FY 2016/17, the wastewater expansion fund is expected to start re-paying any inter-fund loan owed to other District funds. As a policy, the District Board approves any inter-fund borrowing and/or external debt financing.

As noted earlier, the District has a five-year Capital Improvement Program which is updated annually. In May 2015 the Board adopted the FY2015/16–2019/20 CIP. The 2015 update of the capital plan includes additional projects over the next five years in support of the District's five core programs: Wastewater, Recycled Water, Household Hazardous Waste, Street Sweeping and Bay Point Collection. The FY 2015/16 - 2019/20 CIP includes approximately \$83 million for planned projects over five years. It includes 7 new projects with an estimated combined total value of \$1.9 million. Approval of the CIP establishes the new FY 2015/16 CIP total budget appropriation of \$14.7 million.

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

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

Wastewater Sewer Service Charges

The District's collection of sewer service charges is primarily done through the County Property Tax Roll (Teeter Plan). Actual increases to these charges, if any, are considered by the Board annually based on updated cash flow projections. At the June 10, 2015 Board meeting, the Board approved a total of 6.5% rate increase on sewer service charges for FY 2015/16. The total increase of 6.5% in sewer service charges comprises of a 3.8% rate increase needed to adequately meet projected expenditures for the year, coupled with an additional increase of 2.7%, setting aside funds for a future major advanced treatment project anticipated to be required to meet likely new discharge regulations. This was the fourth year with an incremental 2.7% increase for this purpose and is expected to continue through FY 2019/20. The additional 2.7% are deposited into a Board approved designated reserve fund for future advanced treatment costs. This early initiation of funding will avoid significant rate spikes in the future. As of FYE 2015, the Advanced Treatment plant reserve has a balance of \$5.1 million. It is expected that the Advanced Treatment plant will be designed by FY 2026/27 and be in service in late FY 2028/29.

Recycled Water Service Charges

On June 2015, the new recycled water rates were established for fiscal year 2015/16 and approved by the District board. The variable rate component was increased by \$7.75 per acre foot, or 2.8% with the overall recycled water rates to \$355.62 cost per acre foot or 2.7% increase compared to last year. The rates are well under the costs of potable water.

The Calpine monthly stability surcharge remains unchanged at \$20,000 per month is expected to continue for the next three fiscal years due to the continued uncertainty about the level of future use of recycled water by the Calpine plants. This will be evaluated on an annual basis. The recent energy plant shutdowns reduced the recycled water consumptions while the plants were out of service for part of fiscal year; this fix surcharge will ensure a reasonable recycled water operating reserve for the next three fiscal years. The additional recycled water surcharges from the Cities of Antioch and Pittsburg are to cover each City's share of the project costs related to the recycled water. For additional information on the recycled water surcharges for each City, see the financial footnotes section Note 3 – Notes Receivable.

The Board approved in the last quarter of FY 2014/15 to expand the recycled water program to two additional customers on three sites: Pittsburg Unified School District (Pittsburg High School and Rancho Medanos Junior High School) and Contra Costa Waste Service. It is expected that all sites will be in operation in FY 2015/16 and will provide additional recycled water revenue. The expansion of the recycled water program will result in a favorable environmental and fiscal impact for the District and its rate-payers. The recycled water rate was reviewed and recommended for approval by the recycled water Advisory Committee on rates composed of Calpine, the Cities of Pittsburg and Antioch, and District staff.

Cost of Living Adjustments (COLA)

The bargaining unit MOUs provide that COLA will be effective the first full pay period after July 1 each year, from a minimum of 2% up to 5%, based on the April to April change in the Consumer Price Index (CPI), San Francisco/Bay Area, Wage Earners. The April 2015 year-over-year CPI was 2.0% or 1.0% less than previously assumed, which will be effective in fiscal year 2015/16.

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

OPEB and the District's Retiree Health Funding Plan

The District participates in a qualified, irrevocable trust fund that is established solely for the purpose of paying OPEB obligations. As of FYE 2015, the irrevocable trust fund has a balance of \$8.1 million. In July 2011, per the Board approved District Retiree Health Funding Plan, employees began contributing to the OPEB trust. 3% of base salaries is the maximum that will be contributed by employees towards OPEB, which was reached in July 2012 and is expected to continue in FY 2015/16. The District will be matching the employee's contribution. It is projected that the combination of employees' and the District required match contribution will fund about one-third of the FYE 2016 annual required contribution. The District's required matching contribution and an additional \$500 thousand contribution to OPEB is included in the FY 2015/16 benefits budget. The Board's adopted OPEB funding policy states the Board's intent to fully fund the remaining annual obligation. For additional information on OPEB, see accompanying notes to the financial statements No.9 – OPEB.

Pensions

On November 9, 2011, the District's Board approved side letters to each of the three employee bargaining unit's Memorandum of Understanding (MOU) related to pension reform. This initiative will result in current employees making the full employee contribution of 8% to CalPERS over time. It also created a second tier pension plan (Tier II) for employees hired on or after July 1, 2012, which will result in substantially lower employer contributions by the District, as well as these new employees fully paying the employee contributions. In addition, there are provisions for the District matching of employee deferred compensation contributions of up to 4% over time and for Tier I plan employees and up to 3.5% for Tier II employees immediately upon hire. The financial impact of these changes began in FY 2013/14, with the Tier I employee payments into CalPERS at 1% of salaries. Employee payments will increase to 3% in FY 2015/16, further reducing costs that otherwise would have been budgeted as District-paid benefits. The District match up will continue at 1% of employee contributions into a deferred compensation account through FY 2015/16. The new California Public Employees' Pension Reform Act of 2013 (AB 340 or PEPRA) was implemented in fiscal year 2012/13. After PEPRA, the District now has three pensions (Tiers I-III), and has reduced benefit formulas for Tiers II and III relative to Tier I. For the most part, savings from PEPRA will come far in the future, as the majority of the changes apply only to newly-hired employees, and none of these changes affect the existing unfunded pension liability.

CalPERS Rate of Return Reductions and Employer Contribution Rates

The CalPERS Board of Directors reduced its annual rate of return assumption from 7.75% to 7.5%, which CalPERS estimated increasing employer contribution rates by up to 2% beginning in FY2013/14. The 7.5% annual rate of return is expected to continue for FY 2015/16 per the CalPERS annual valuation report issued in October 2014 as of June 30, 2013. Per the 2014 CalPERS annual valuation report, starting FY 2015/16 CalPERS will collect employer contributions towards the unfunded liability as dollar amounts instead of the prior method, which was included as part of the contribution rate. In July 2015, the District made a pre-payment of \$493 thousand towards the unfunded liability (included in the FY 2015/16 benefits budget) instead of paying in monthly increments. The savings resulted from pre-payment is approximately 3.68% in interest earnings on the principal amount. The 2015 annual valuation report as of June 30, 2014 is expected to be available in December 2015.

For fiscal year 2015/16, the required employer contribution for pension Tiers I, II and III employees is 11.5%, 8.9%, and 6.7%, respectively.

DELTA DIABLO
MANAGEMENT'S DISCUSSION & ANALYSIS
For the Fiscal Year Ended June 30, 2015 and 2014

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

REQUESTS FOR INFORMATION

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

DELTA DIABLO
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

ASSETS	2015	2014
CURRENT ASSETS		
Cash (Note 2)	\$3,053,106	\$1,936,810
Investments (Note 2)	27,922,177	26,673,688
Accounts receivable	1,154,696	897,789
Interest receivable	17,396	14,253
Notes receivable, current portion (Note 3)	320,567	317,354
Employee computer loans receivable, current portion (Note 4)	11,967	8,895
Materials and supplies (Note 1H)	906,744	768,454
Prepaid expenses	311,366	199,986
Total current assets	33,698,019	30,817,229
NON-CURRENT ASSETS		
Restricted investments (Note 2H)	2,087,120	2,088,848
Designated investments (Note 2I)	6,495,210	4,292,068
Other Assets:		
Notes receivable, less current portion (Note 3)	5,017,049	5,337,617
Employee computer loans receivable, less current portion (Note 4)	9,391	5,102
Net OPEB asset (Note 9)	1,792,147	1,248,378
Total other assets	6,818,587	6,591,097
Capital Assets (Note 5):		
Capital assets, non-depreciable	7,906,666	9,775,464
Depreciable capital assets, net of accumulated depreciation	129,941,857	130,980,174
Total capital assets, net	137,848,523	140,755,638
Total noncurrent assets	153,249,440	153,727,651
TOTAL ASSETS	186,947,459	184,544,880
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions (Note 8)	1,641,445	

(Continued)

See accompanying notes to financial statements

DELTA DIABLO
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

	2015	2014
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$1,778,845	\$1,581,208
Accrued payroll and benefits	643,075	589,337
Deposits payable	133,467	46,376
Unearned revenue	85,711	435,971
Compensated absences - current portion (Note 6)	631,667	643,889
Current portion of long-term debt (Note 7)	1,628,780	1,612,468
Accreted interest (Note 7)	2,624,532	2,582,087
Accrued interest payable	3,803	5,655
Total current liabilities	7,529,880	7,496,991
LONG-TERM LIABILITIES		
Long-term debt, net of current portion (Note 7):		
Certificates of participation	642,041	1,327,509
State revolving fund loans	9,990,256	10,134,156
Installment sale agreement	1,594,676	1,764,088
Accreted interest	2,285,306	4,425,373
Total long-term debt, net of current portion	14,512,279	17,651,126
Compensated absences -net of current portion (Note 6)	186,445	208,350
Property tax refund	31,121	31,121
Net pension liability (Note 8)	10,317,451	
Total long-term liabilities	25,047,296	17,890,597
TOTAL LIABILITIES	32,577,176	25,387,588
DEFERRED INFLOWS OF RESOURCES		
Related to pensions (Note 8)	2,288,995	
NET POSITION (Note 11)		
Net investment in capital assets	123,992,770	125,917,417
Restricted for debt service	2,087,120	2,088,848
Unrestricted	27,642,843	31,151,027
TOTAL NET POSITION	\$153,722,733	\$159,157,292

See accompanying notes to financial statements

DELTA DIABLO
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES		
Service charges	\$28,626,113	\$27,151,658
Discharge permits	158,950	167,150
Household hazardous waste operating fees	450,714	437,394
Miscellaneous	641,137	641,136
Work for others	896,889	915,624
Total operating revenues	30,773,803	29,312,962
OPERATING EXPENSES		
Salaries and benefits	12,304,139	13,500,132
Chemicals	1,078,924	1,160,309
Depreciation (Note 5)	6,959,201	6,821,159
Office expense	911,237	816,023
Operating expense	848,739	813,770
Outside service and maintenance	4,445,466	4,071,441
Travel and meetings	84,202	79,253
Utilities	1,488,843	1,606,954
Other	62,813	130,976
Total operating expenses	28,183,564	29,000,017
OPERATING INCOME (LOSS)	2,590,239	312,945
NONOPERATING REVENUES (EXPENSES)		
Interest expense	(735,098)	(695,818)
Interest income	207,369	174,179
Capital facilities capacity charges (Note 11)	1,926,982	2,250,790
Lease revenue (Note 12)	36,125	36,125
Gain (Loss) on sale of asset	4,034	(415,681)
State grants	160,683	512,404
Subgrants	203,021	914,469
Property taxes	1,974,773	1,698,185
Total nonoperating revenues (expenses), net	3,777,889	4,474,653
NET INCOME (LOSS)	6,368,128	4,787,598
NET POSITION, BEGINNING OF YEAR, As ADJUSTED (Note 1K)	147,354,604	154,369,695
NET POSITION, END OF YEAR	\$153,722,733	\$159,157,292

See accompanying notes to financial statements

DELTA DIABLO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$30,516,896	\$29,714,183
Payments to employees	(9,954,201)	(12,962,243)
Payments to utilities	(1,488,843)	(1,606,954)
Payments to contractual/professional services	(4,358,375)	(4,037,723)
Payments to suppliers	(2,890,933)	(2,375,704)
Other receipts (payments)	(497,275)	(496,910)
Net Cash Provided by Operating Activities	11,327,269	8,234,649
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Taxes	1,974,773	1,698,185
State, federal and sub grants	363,704	1,426,873
Receipts (payments) on employee computer loans	(7,361)	3,688
Cash Flows from Noncapital Financing Activities	2,331,116	3,128,746
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(4,052,089)	(3,407,367)
Proceeds from sale of capital assets	4,034	(415,681)
Proceeds from SRF loan	630,000	
Interest paid on long-term debt	(736,950)	(697,636)
Payment of long-term debt	(1,612,468)	(1,644,110)
Connection fees	1,926,982	2,250,790
Cash Flows (used for) Capital and Related Financing Activities	(3,840,491)	(3,914,004)
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption and acquisition of investments, net	(9,259,304)	(7,633,518)
Receipts on note	317,355	320,423
Interest received on investments	204,226	173,489
Interest received on lease	36,125	36,125
Cash Flows used for) Investing Activities	(8,701,598)	(7,103,481)
NET INCREASE IN CASH	1,116,296	345,910
Cash, beginning of year	1,936,810	1,590,900
Cash, end of year	\$3,053,106	\$1,936,810
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$2,590,239	\$312,945
Adjustments to reconcile operating loss to cash flows from operating activities:		
Depreciation	6,959,201	6,821,159
Change in assets and liabilities:		
Receivables, net	(256,907)	401,221
Materials and supplies	(138,290)	(19,510)
Prepaid expenses	(111,380)	(132,641)
Accounts payable and accrued expenses	197,637	566,549
Accrued payroll and related expenses	19,611	(118,743)
Deposits payable	87,091	33,718
Unearned revenue	(350,260)	(286,681)
Net OPEB obligation and asset	543,769	656,632
Net pension liability	1,786,558	
Net cash provided by operating activities	\$11,327,269	\$8,234,649
SCHEDULE OF NON CASH ACTIVITY		
Accreted interest on bonds	(\$2,097,622)	(\$1,918,517)
Change in fair value of investments	(281,092)	(2,764,558)

See accompanying notes to financial statements

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**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

Delta Diablo (District), formerly known as Delta Diablo Sanitation District, was formed in 1955 and later incorporated in October 1976 to serve the territory of the cities of Antioch and Pittsburg and the community of Bay Point. Treatment of the wastewater collected from the three communities began in 1982.

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

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

B. Reporting Entity

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

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

C. Basis of Accounting

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

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

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

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets and Budgetary Accounting

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

E. Use of Estimates

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

F. Compensated Absences

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

G. Cash and Cash Equivalents

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

H. Materials and Supplies

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

I. Revenues – Capital Facilities Capacity Charges

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

Revenues derived from these charges are used for the acquisition, construction and reconstruction of the wastewater collection, conveyance, treatment and disposal facilities of the District, to repay principal and interest on debt instruments, or to repay federal or State loans for the construction and reconstruction of the sewerage facilities, together with costs of administration and provisions for necessary reserves.

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Reclassification

For the year ended June 30, 2015, certain classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform to the fiscal year 2014 presentation.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as inflow of resources (revenue) until that time. The District has only one item that qualifies for reporting in this category.

L. Implementation of Governmental Accounting Standards Board (GASB) Statements

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2015.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The intension of this Statement is to improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense.

GASB Statement No. 71 – In 2014, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The intension of this Statement is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and non-employer contributing entities.

The implementation of the above Statements required the District to make prior period adjustments. As a result, the beginning net position of the Business-Type Activities of the District was reduced by \$11,802,688. See Note 8 for additional information.

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 2 – CASH AND INVESTMENTS

A. Policies

The District and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the District employs the Trust Department of a bank as the custodian of all District managed investments, regardless of their form.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District’s cash on deposit or first trust deed mortgage notes with a value of 150% of the District’s cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the District’s name and places the District ahead of general creditors of the institution pledging the collateral.

The District’s investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year. In the District’s case, fair value equals fair market value, since all District’s investments are readily marketable.

B. Classification

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

	June 30,	
	2015	2014
Cash, available for District operations	\$3,053,106	\$1,936,810
Investments, available for District operations	27,922,177	26,673,688
Restricted cash and investments	2,087,120	2,088,848
Designated cash and investments	6,495,210	4,292,068
Total Cash and Investments	\$39,557,613	\$34,991,414

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

	June 30,	
	2015	2014
Cash on hand	\$800	\$800
Investment in County Treasury Pool	803,133	470,044
Deposits with financial institutions	1,606,562	1,227,835
Investments	37,147,118	33,292,735
Total Cash and Investments	\$39,557,613	\$34,991,414

C. Investments Authorized by the California Government Code and the District’s Investment Policy

The District’s Investment Policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the District’s Investment Policy where it is more restrictive that address interest rate risk, credit risk and concentration of credit risk:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	5 years		100%	No Limit
United States Government Agency Obligations	5 years		100%	No Limit
State of California Obligations	5 years		100%	No Limit
Local Agency Obligations	5 years		100%	No Limit
Banker’s Acceptances	180 days		40%	30%
Commercial Paper	270 days	A-1	25%	10%
United States Medium Term Corporate Notes	5 years	AA	30%	No Limit
Negotiable Certificates of Deposit	1 year	AA	30%	No Limit
Local Agency Investment Fund	n/a		\$40 million per account	No Limit
Local Government Investment Pools	n/a	AAA	100%	No Limit
Money Market Mutual Funds	n/a		15%	10%
Insured savings or money market accounts	n/a		100%	No Limit

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 2 – CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The bond indentures contain no limitations for the maximum investment in any one issuer or the maximum percentage of the portfolio that may be invested in any one investment type. The table also identifies certain provisions related to maturities and credit ratings, where applicable, of these investments:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>
U.S. Treasury Obligations		
U.S. Government Sponsored Enterprises		
U.S. Agency Obligations		
State Obligations:		
Long-term General Obligations		A
Short-term General Obligations		Highest to A-1+
Special Revenue Bonds		AA
Demand Deposits		
Time Deposits		
Unsecured Certificates of Deposit	30 days	A-1
FDIC Insured Deposits		
Repurchase Agreements	30 days	A-1 to A
Investment Agreements		AA
Pre-refunded Municipal Obligations		AAA
Prime Commercial Paper	270 days to 365 days	A-1 to A-1+
Banker's Acceptances		
Money Market Mutual Funds		Aam or AAam-G
State Pooled Investment Fund		
Local Agency Investment Fund		

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 2 – CASH AND INVESTMENTS (Continued)

E. Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call dates, at June 30, 2015:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Totals	
				2015	2014
Held by District:					
U.S. Government Agency Obligations		\$1,957,137		\$1,957,137	\$2,553,279
Corporate Notes		2,024,569	\$1,002,908	3,027,477	2,640,864
California Local Agency Investment Fund	\$29,753,060			29,753,060	26,089,416
Money Market Mutual Funds (U.S. Securities)	642,611			642,611	238,131
Held by Trustees:					
Certificates of Deposit		\$1,766,833		1,766,833	1,771,038
Money Market Mutual Funds (U.S. Securities)					7
Total Investments	\$30,395,671	\$5,748,539	\$1,002,908	\$37,147,118	\$33,292,735

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2015 and 2014, these investments matured in an average of 239 and 232 days, respectively.

Money market mutual funds are available for withdrawal on demand. At June 30, 2015 and 2014, these investments matured in an average of 12 and 36 days, respectively.

The District has authorized staff to deposit cash with the Contra Costa County Treasurer in a series of pooled accounts with cash from various other governmental entities within the County, for investment purposes. The County's investment policies are governed by State statutes. In addition, the County has an investment committee, which prescribes written investment policies regarding the types of investments that may be made. The policies limit amounts that may be invested in any one financial institution or amounts, which may be invested in long-term instruments. Interest earned from such time deposits and investments is allocated quarterly to the District based on its average daily cash balances. The fair value of the account at June 30, 2015 was provided by the County Treasurer.

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 – CASH AND INVESTMENTS (Continued)

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2015 for each investment type as provided by Moody's investment rating system:

Investment Type	Aaa	Totals	
		2015	2014
Held by District:			
U.S. Government Agency Obligations	\$1,957,137	\$1,957,137	\$2,553,279
Corporate Notes	3,027,477	3,027,477	2,640,864
Money Market Mutual Funds (U.S. Securities)	642,611	642,611	238,131
Held by Trustees:			
Certificates of Deposit	1,766,833	1,766,833	1,771,038
Money Market Mutual Funds (U.S. Securities)			7
Totals	<u>\$7,394,058</u>	7,394,058	7,203,319
Not rated:			
California Local Agency Investment Fund		29,753,060	26,089,416
Total Investments		<u>\$37,147,118</u>	<u>\$33,292,735</u>

G. Concentration Risk

There are no instances of concentration risk at June 30, 2015 and June 30, 2014.

H. Restricted Cash and Investments

The District has the following restrictions on cash and investments:

Restricted for Debt Service – 1991 Bonds - The District has moneys held by Wells Fargo Bank as trustee, pledged to the payment or security of its outstanding bond issues. All transactions associated with debt service are administered by the Bank. The investment amounts for June 30, 2015 are \$38,172 and \$1,722,590 respectively, totaling \$1,760,762. The cash and investment amounts for June 30, 2014 were \$39,910 and \$1,722,580 respectively, totaling \$1,762,490.

Restricted for Debt Service – State Revolving Fund Loan- The District has restricted investments in reserves as required by the agreement between the District and the California State Water Resources Control Board State Revolving Fund Loan (SRF) in the amount of \$326,358 at June 30, 2015 and 2014.

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 2 – CASH AND INVESTMENTS (Continued)

I. Board Designated Investments

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

Designated for Advanced Treatment Plant - The District has designated investments for the anticipation of the need for an advanced treatment plant in the amount of \$5,118,595 and \$2,871,467 at June 30, 2015 and 2014, respectively.

Designated for Operations and Maintenance Rate Stabilization - The District has designated investments for rate increases due to loss of revenue, increased retirement costs or other unanticipated significant expenses in the amount of \$600,000 at June 30, 2015 and 2014.

Designated for Related Employee Benefits Costs - The District has designated investments in accordance with employee labor contracts for the purpose of paying future benefits in connection with salary continuation in the amount \$132,000 at June 30, 2015 and 2014.

The District has designated investments to fund future increases associated with employee benefit costs related to Contra Costa County Employees Retirement Association (CCCERA) retirement plan. The District discontinued participation in the CCCERA retirement plan effective June 20, 2004. The termination agreement provides for an evaluation of any additional liability owed to CCCERA every three years. See additional information in Note 8C. As of June 30, 2015 and 2014, the amount designated for CCCERA employee benefit costs is \$144,615 and \$188,601, respectively.

As of June 30, 2015 and 2014, respectively, the total amount for designated related employee benefits costs is \$276,615 and \$320,601.

Designated for Insurance - The District has designated investments for potential insurance claims in the amount of \$500,000 at both June 30, 2015 and 2014.

NOTE 3 – NOTES RECEIVABLE

Notes receivable at June 30 consisted of the following:

	2015	2014
RWF:		
City of Antioch	\$4,006,148	\$4,254,898
City of Antioch - Surcharge	990,300	1,029,218
City of Pittsburg - Surcharge	273,520	301,635
HHW:		
Contra Costa County	67,648	69,220
Total Notes Receivable	5,337,616	5,654,971
Less: Current Portion	(320,567)	(317,354)
Long-Term Portion	\$5,017,049	\$5,337,617

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 3 – NOTES RECEIVABLE (Continued)

Recycled Water (RW):

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

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

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

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

In fiscal year 2014/2015, the City’s share of the actual cost of this rehabilitation amounted to \$273,520. The District recognized a Note Receivable for this amount with principal and interest due monthly commencing July 1, 2013 and maturing on June 1, 2023. This monthly installment is billed to the City of Pittsburg as a Recycled Water Surcharge and annually amounts to \$40,391.

Household Hazardous Waste (HHW) - The District owns and operates a Household Hazardous Waste (HHW) and a Conditionally Exempt Small Quantity Generator (CESQG) waste collection facility. In an agreement dated July 1, 2002, Contra Costa County, Ironhouse Sanitary District and the Cities of Antioch, Brentwood and Pittsburg (Subscribers) agreed to reimburse the District for capital costs in planning and constructing the household hazardous waste facility.

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 3 – NOTES RECEIVABLE (Continued)

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

NOTE 4 – EMPLOYEE COMPUTER LOANS RECEIVABLE

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

	2015	2014
Employee computer loans	\$21,358	\$13,997
Less: current portion	(11,967)	(8,895)
Long-term portion	\$9,391	\$5,102

NOTE 5 – CAPITAL ASSETS

Property, plant and equipment are recorded at the time of purchase and are capitalized at cost. The District capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset. Contributed capital assets are valued at their estimated fair market value on the date contributed. The District defines capital assets as property, plant and equipment with an initial individual cost of \$5,000 and an estimated useful life in excess of one year.

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

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

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 – CAPITAL ASSETS (Continued)

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

	Balance at June 30, 2014	Additions	Transfers	Retirement	Balance at June 30, 2015
Capital assets not being depreciated:					
Land	\$2,719,251				\$2,719,251
Construction in Progress	<u>7,056,213</u>	<u>\$3,989,517</u>	<u>(\$5,858,315)</u>		<u>5,187,415</u>
Total capital assets not being depreciated	<u>9,775,464</u>	<u>3,989,517</u>	<u>(5,858,315)</u>		<u>7,906,666</u>
Capital assets being depreciated:					
Treatment & Collection System	223,197,226		5,851,391		229,048,617
Equipment	<u>4,432,092</u>	<u>62,570</u>	<u>6,924</u>	<u>(16,979)</u>	<u>4,484,607</u>
Total capital assets being depreciated:	<u>227,629,318</u>	<u>62,570</u>	<u>5,858,315</u>	<u>(16,979)</u>	<u>233,533,224</u>
Less accumulated depreciation for:					
Treatment & Collection System	93,266,646	6,610,384			99,877,030
Equipment	<u>3,382,498</u>	<u>348,818</u>		<u>(16,979)</u>	<u>3,714,337</u>
Total accumulated depreciation	<u>96,649,144</u>	<u>\$6,959,202</u>		<u>(\$16,979)</u>	<u>103,591,367</u>
Net capital assets being depreciated	<u>130,980,174</u>				<u>129,941,857</u>
Total Capital Assets, net	<u>\$140,755,638</u>				<u>\$137,848,523</u>

Construction in progress represents construction of treatment and collection facilities.

NOTE 6 – COMPENSATED ABSENCES

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

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

	2015	2014
Beginning Balance	\$852,239	\$879,046
Additions	708,522	752,507
Payments	<u>(742,649)</u>	<u>(779,314)</u>
Ending Balance	<u>\$818,112</u>	<u>\$852,239</u>
Current Portion	\$631,667	\$643,889
Non Current Portion	<u>\$186,445</u>	<u>\$208,350</u>

In addition, the Board has set up a Catastrophic Leave Bank, which accumulates up to 40 hours from each terminated employee's forfeited sick leave. Employees may also donate vacation hours. This time may be used by employees who have used all their sick leave due to catastrophic illness and need additional time off. Accumulated Catastrophic Leave at June 30, 2015 was \$110,361 and is included in the balance of Accrued Payroll and Benefits on the Statements of Net Position.

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 7 – LONG-TERM DEBT

A. Current Year Transactions and Balances

	Original Issue Amount	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Amount due within one year
1991 Certificates of Participation						
Wastewater Facilities Expansion Project, 4.6-6.25%, due 12/01/2016	\$17,454,950	\$2,060,422		\$732,913	\$1,327,509	\$685,468
Accreted interest on 1991 Certificates		7,007,460	\$484,465	2,582,087	4,909,838	2,624,532
1997 State Revolving Fund Loan						
1.80%, due 12/31/2016	3,611,046	627,237		205,355	421,882	209,057
2010 State Revolving Fund Loan						
.077% due 4/03/2030	6,325,503	5,382,766		314,687	5,068,079	314,930
2011 Installment Sale Agreement						
4.9%, due 6/24/2031	2,344,210	1,923,203		159,115	1,764,088	169,412
2011 State Revolving Fund Loan						
2.60%, due 4/03/2033	5,041,873	4,844,593		200,398	4,644,195	205,609
2015 California Energy Commission Loan						
1.00%, due 06/22/2029	630,000		630,000		630,000	44,304
Total Long-Term Debt		21,845,681	\$1,114,465	\$4,194,555	18,765,591	\$4,253,312
Less:						
Amount due within one year		(4,172,818)			(4,253,312)	
Total Long-Term Debt, net		\$17,672,863			\$14,512,279	

B. 1991 Subordinated Certificates of Participation

The District issued Certificates of Participation (COPs) on November 1, 1991, to finance the acquisition and construction of public improvements of the wastewater and sewage systems. The bonds are payable from revenues of the District. Final maturity of the COP is due in December 2016. The principal and interest for the 1991 COPs start maturing on December 1, 2010 and every year thereafter through fiscal year 2017.

C. 1997 State Revolving Fund (SRF) Loan

The District entered into a loan contract with the State of California (State Water Resources Control Board) on March 5, 1997, for the purpose of financing the Pittsburg Conveyance System Improvement Project. The loan amount totals \$3,611,046 with a stated interest rate of 1.80% per annum. Principal payments are due annually beginning in 1999 through the fiscal year 2017, and are payable from revenues of the District.

D. 2010 State Revolving Fund (SRF) Loan

The District entered into a loan contract with the State of California (State Water Resources Control Board) on July 8, 2009, for the purpose of financing the Antioch/Delta Diablo Sanitation District Recycled Water Project. The loan amount totals \$6,325,503 with a stated interest rate of .077% per annum over a 20-year term. The City of Antioch owes the District \$5,000,000 of this amount as part of their cost share for the Recycled Water Antioch Project (see Note 3-Notes Receivable). Principal payments are due annually beginning on December 31, 2011 through the fiscal year 2030.

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 7 – LONG-TERM DEBT (Continued)

E. 2011 Installment Sale Agreement

On June 9, 2011, the District entered into an installment sale agreement (agreement) with Municipal Finance Corporation, which was subsequently assigned to City National Bank on June 22, 2011, for the purpose of financing a solar energy project. The agreement amount totals \$2,344,210 with a stated interest of 4.9% per annum, and is payable from revenues of the District. Principal and interest payments are due semi-annually on December 24 and June 24, commencing December 24, 2011 and maturing on June 24, 2031.

F. 2011 State Revolving Fund (SRF) Loan

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

On April 8, 2015 the District amended an agreement with the State of California (State Water Resources Control Board) to loan up to \$4,929,680 at zero percent interest. However, the District agrees to pay a Small Community Grant Fund Charge at 2.6% per annum. Principal and additional charges are due beginning on April 3, 2015 through the fiscal year 2033.

G. California Energy Commission

The District entered into a loan agreement with the California Energy Resources Conservation Development Commission on October 10, 2013, for the purpose of financing the Energy Savings Project. The project consists of energy savings projects to be installed at the Wastewater Treatment Plant. The loan amount totals \$700,000 at 1.00% interest per annum on the unpaid principal. Principal and interest payments are due semi-annually beginning on December 22, 2015 through the fiscal year 2029.

H. Debt Service Requirements

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

For The Year Ending June 30	Principal (A)	Interest	Total
2016	\$4,253,312	\$226,260	\$4,479,572
2017	3,766,295	206,848	3,973,143
2018	638,133	194,158	832,291
2019	650,658	184,874	835,532
2020	663,704	175,145	838,849
2021 - 2025	3,535,086	711,819	4,246,905
2026 - 2030	3,833,982	384,952	4,218,934
2031 - 2035	1,424,421	55,510	1,479,931
Total payments due	<u>\$18,765,591</u>	<u>\$2,139,566</u>	<u>\$20,905,157</u>

(A) Includes unaccreted discount totaling \$4,909,838

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 8 - RETIREMENT

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the District's and Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Association resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous		
	Tier I	Tier II	Tier III
	Prior to 6/30/12	6/30/12 to 12/31/12 and employees hired on or after 1/1/13 who are not a "new member	On or after 1/1/13; new member
Hire date			
Benefit formula	2.7% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55	55	62
Monthly benefits, as a % of eligible compensation	2.70%	2.00%	2.00%
Required employee contribution rates	8.0%	7.0%	6.5%
Required employer contribution rates	17.252%	0%	0%

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 – RETIREMENT (Continued)

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Tier I	Miscellaneous Tier II	Tier III
Contributions - employer	\$1,486,306	\$79,772	\$25,285
Contributions - employee (paid by employer)	126,482	46,752	24,531

B. *Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Tier I	\$8,016,300
Tier II	4,749
Tier III	1,595
Total Net Pension Liability	\$8,022,644

The District’s net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District’s proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Tier I	Miscellaneous Tier II	Tier III
Proportion - June 30, 2013	0.33%	0.00020%	0.00007%
Proportion - June 30, 2014	0.32%	0.00019%	0.00006%

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 8 – RETIREMENT (Continued)

For the year ended June 30, 2015, the District recognized pension expense of \$1,133,196. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Tier I Deferred		Tier II Deferred	
	Outflows	Inflows	Outflows	Inflows
Pension contributions subsequent to measurement date	\$1,532,055		\$82,986	
Differences between actual and expected experience				
Changes in assumptions				
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(\$2,155,077)		(\$1,277)
Net differences between projected and actual earnings on plan investments		(\$111,837)		(11,894)
Total	<u>\$1,532,055</u>	<u>(\$2,266,914)</u>	<u>\$82,986</u>	<u>(\$13,171)</u>
	Tier III Deferred		Total Deferred	
	Outflows	Inflows	Outflows	Inflows
Pension contributions subsequent to measurement date	\$26,404		\$1,641,445	
Differences between actual and expected experience				
Changes in assumptions				
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(\$429)		(\$2,156,783)
Net differences between projected and actual earnings on plan investments		(8,481)		(132,212)
Total	<u>\$26,404</u>	<u>(\$8,910)</u>	<u>\$1,641,445</u>	<u>(\$2,288,995)</u>

\$1,591,363 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended	Miscellaneous		
	Tier 1	Tier II	Tier III
June 30			
2015	(\$723,389)	(\$5,708)	(\$3,920)
2016	(723,389)	(5,708)	(3,920)
2017	(713,404)	(4,648)	(3,163)
2018	(673,462)	(399)	(134)

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 – RETIREMENT (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2014, the total pension liabilities were determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

	All Plans
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Projected Salary Increase	Depending on age, service and type of employment
Investment Rate of Return	7.5% (1)
Mortality	Derived using CalPERS Membership

(1) Net of pension plan investment expenses, including inflation

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 – RETIREMENT (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 8 – RETIREMENT (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous		
	Tier I	Tier II	Tier III
1% Decrease	6.50%	6.50%	6.50%
Net Pension Liability	\$14,282,568	\$8,461	\$2,842
Current Discount Rate	7.50%	7.50%	7.50%
Net Pension Liability	\$8,016,300	\$4,749	\$1,595
1% Increase	8.50%	8.50%	8.50%
Net Pension Liability	\$2,815,893	\$1,668	\$560

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

C. *Contra Costa County Employees Retirement Association Closed Plan*

The District discontinued participation in the Contra Costa County Employees Retirement Association (CCCERA) effective June 20, 2004. The termination agreement provides for an evaluation of any additional liability owed to CCCERA every three years. CCCERA retained certain assets contributed by the District and they remain responsible for retiree benefits for retirees and deferred vested members who were not transferred to the CalPERS system. The designation of 3.75% of payroll annually for Employee Benefit Costs will be a source of funds to address this or other liabilities due to employee benefit costs increases. On December 16, 2013, CCCERA’s actuary has conducted and determined the District’s termination liability using the triennial experience analysis as of December 31, 2012. Based on this analysis and in accordance with the termination agreement with CCCERA, the District’s unfunded obligation of \$2,953,683 is to be amortized over 15 years, resulting in annual payments of \$329,438 starting December 31, 2013. The next triennial actuarial valuation is expected on December 2016. As of June 30, 2015, in accordance with GASB 68, the District recorded a net pension liability of \$2,294,807 under the CCERA plan.

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

The District follows the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement established uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). Required disclosures are presented below.

A. *Plan Description and Funding Policy*

The District provides postretirement health care benefits to eligible retirees in accordance with Memorandums of Understanding (M.O.U.s) with employee groups. In accordance with the M.O.U.s, the District contracts with CalPERS to provide post-retirement health benefits through the CalPERS PEMHCA program, which provides for vesting at age 50 with five (5) years of service. The District implemented the California State Vesting Program for Retiree Health Care as regulated by Government Code 22893 by resolution (8/2008).

All District employees hired after the implementation date (01/01/2009), will be enrolled in the State's Vesting Program, which starts fifty (50%) medical benefit at age 50 with 10 years of service, increasing by 5% for each additional year of service to 100% with 20 years of service. The District contribution for eligible retirees (and spouses) is continued at the rate in effect each year. The cost of the benefits provided by the plan is currently being pre-funded in an irrevocable trust by the District. The District's plans to fund the benefits provided under the plan over a 30-year horizon, with minimal impacts to District rate payers. Upon adoption of the annual fiscal year operating budget, the District will transfer all funds budgeted for retiree medical premiums to its OPEB Trust Fund. Additional annual funding of the annual required contributions (ARC) will be set by the District Board from all or part of the following sources, in the order listed below:

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

On July 14, 2011, the Board adopted the District's Retiree Health Funding Plan which outlines that employees will begin contributing 1% of their salaries to the OPEB trust in July 2011; that these contributions will increase to 2% of salaries in July 2011 and to 3% of salaries in July 2012. It also covers all of the other key elements of the Principles of Agreement such as 1) employee contributions are made on a pre-tax basis and are included in employee compensation for CalPERS retirement purposes; 2) the District at least match the annual employee contributions; 3) the District make a good faith effort to fully fund the remaining ARC each year; and 4) that in recognition of the employees' initiative in assisting in funding the OPEB obligation, the terms of the bargaining units' MOU with the District be extended by three years to June 30, 2018.

At June 30, 2015, 42 retirees were receiving benefits.

DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

B. Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2012 actuarial valuation, the most recent available, using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 6.5% investment rate of return, (b) 3.25% projected annual salary increase, (c) 3% inflation rate and (d) health care cost trend rates from 5.0% to 7.8% for medical benefits. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least tri-ennially as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis. As of June 30, 2014, there were 24-years remaining in the initial 30-year amortization period.

Funding Progress and Funded Status

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

Net OPEB Obligation (Asset) at June 30, 2013	(\$591,746)
Annual OPEB cost - fiscal 2013/2014:	
Annual required contribution (ARC)	\$1,006,000
Interest on Net OPEB Obligation	(1,000)
Adjustments to ARC	1,000
Annual OPEB cost - fiscal 2013/2014	1,006,000
Less contributions made during fiscal year 2013/2014:	
Contributions made to PARS irrevocable trust	1,662,632
Total contributions	1,662,632
(Decrease) in net OPEB obligation	(656,632)
Net OPEB Obligation (Asset) at June 30, 2014	(1,248,378)
Annual OPEB cost - fiscal 2014/2015:	
Annual required contribution (ARC)	793,000
Interest on Net OPEB Asset	(81,000)
Adjustments to ARC	78,000
Annual OPEB cost - fiscal 2014/2015	790,000
Less contributions made during fiscal year 2014/2015:	
Contributions made to PARS irrevocable trust	1,333,769
Total contributions	1,333,769
Increase in net OPEB asset	(543,769)
Net OPEB Obligation (Asset) at June 30, 2015	(\$1,792,147)

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

As of the June 30, 2014 Actuarial Valuation, the actuarial accrued liability (AAL) representing the present value of future benefits amounted to \$12,598,000.

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, is set forth below:

Fiscal Year	Annual OPEB Cost (AOC)	Actual Contribution	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
June 30, 2015	\$790,000	\$1,333,769	169%	(\$1,792,147)
June 30, 2014	1,006,000	1,662,632	165%	(1,248,378)
June 30, 2013	974,000	1,548,765	159%	(591,746)

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the last three actuarial studies are presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A - B)/C]
June 30, 2014	\$6,768,000	\$12,598,000	\$5,830,000	53.72%	\$7,674,000	75.97%
June 30, 2012	3,416,000	10,963,000	7,547,000	31.16%	8,054,000	93.70%
June 30, 2010	2,163,000	7,949,000	5,786,000	27.21%	7,602,000	76.11%

NOTE 10 – RISK MANAGEMENT

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

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

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

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 10 – RISK MANAGEMENT (Continued)

The following is a summary of the insurance policies in force carried by the Authority as of June 30, 2015:

Type of Coverage	Limits	Deductibles
General Liability	\$15,000,000	\$100,000
Excess General Liability	25,500,000	15,000,000
Worker's Compensation	750,000	None
Excess Worker's Compensation Liability	Statutory Limit	750,000
Special Form Property	164,819,292	25,000
Public Entity Physical Damage	525,581	1,000/2,000
Public Entity Pollution Liability	1,000,000/500,000	100,000/50,000
Cyber Liability Coverage	2,000,000	None
Master Crime Liability	2,000,000	2,500
Fiduciary Liability	1,000,000	1,000
Differences in Conditions - Earthquake/Flood	5,000,000	50,000
ID Fraud Master Policy Identity Theft	25,000	None
Pollution and Remediation Legal Liability	1,000,000	250,000

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

NOTE 11 – NET POSITION

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

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

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

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

**DELTA DIABLO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. *Lease Revenue*

Delta Energy Center, LLC (DEC) and Calpine Corporation entered into an operating lease with the District, effective December 11, 2002, to lease real property located at 2600 Pittsburg-Antioch Highway, in Pittsburg, for a cooling tower site. The base rent for the leased land started at \$32,500 per year and is set to escalate every five years based on changes in the Consumer Price Index. The current rate is \$36,125 per year. The area leased is 260 feet by 50 feet, on land that is not targeted for District improvements. The agreement terminates May 31, 2050. Minimum future rentals total \$1,264,375 at June 30, 2015. The lessee, DEC, retains an option to terminate the lease agreement by providing a thirty-day written notice to the District. The total remaining minimum future rental payments are as follows:

<u>For the Year Ending June 30</u>	<u>Minimum Future Rentals</u>
2016	\$36,125
2017	36,125
2018	36,125
2019	36,125
2020	36,125
2021 - 2025	180,625
2026 - 2030	180,625
2031 - 2035	180,625
2036 - 2040	180,625
2041 - 2045	180,625
2046 - 2050	180,625
	<u>\$1,264,375</u>

B. *Purchase Commitments*

The District has a number of purchase commitments for ongoing operating and capital projects that involves multi-year contracts. Purchase commitments related to these multi-year contracts are approximately \$2,646,664 and \$4,239,712 as of June 30, 2015 and 2014, respectively.

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REQUIRED SUPPLEMENTARY INFORMATION

Prepared for Delta Diablo Sanitation District, a Cost-Sharing Defined Pension Plan
 As of fiscal year ending June 30, 2015
 Last 10 Years*

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

	Miscellaneous Plan		
	Tier I 6/30/2014	Tier II 6/30/2014	Tier III 6/30/2014
Plan's Proportion of the Net Pension Liability/Asset	0.12883%	0.00008%	0.00003%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$8,016,300	\$4,749	\$1,595
Plan's Covered-Employee Payroll	\$7,681,566	\$258,060	\$199,014
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of it's Covered-Employee Payroll	104.36%	1.84%	0.80%
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of the Plan's Total Pension Liability	83.03%	83.03%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	\$1,060,527	\$628	\$211

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Prepared for Delta Diablo Sanitation District, a Cost-Sharing Defined Pension Plan
As of fiscal year ending June 30, 2015
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

	Miscellaneous		
	Tier I	Tier II	Tier III
	Fiscal Year 2013-2014	Fiscal Year 2013-2014	Fiscal Year 2013-2014
Actuarially determined contribution	\$ 1,202,882	\$ 34,331	\$ 13,965
Contributions in relation to the actuarially determined contributions	(1,202,882)	(34,331)	(13,965)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 7,681,566	\$ 258,060	\$ 199,014
Contributions as a percentage of covered-employee payroll	-15.66%	-13.30%	-7.02%
Notes to Schedule			
Valuation date:	6/30/2013	6/30/2013	6/30/2013
Methods and assumptions used to determine contribution rates:			
Actuarial cost method	Entry age		
Amortization method	Level percentage of payroll, closed		
Remaining amortization period	30 years		
Asset valuation method	5-year smoothed market		
Inflation	2.75%		
Salary increases	Varies by Entry Age and Service		
Investment rate of return	7.5%, net of pension plan investment and administrative expenses, including inflation		
Retirement age	55 yrs. Tier I, 55 yrs. Tier II, 62 yrs. Tier III		
Mortality	The probabilities of mortality are derived from CalPERS' Membership Data for all Funds based on CalPERS' specific data from a 2014 CalPERS Experience Study. The table includes 20 years of mortality improvements using the Society of Actuaries Scale BB.		

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

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SUPPLEMENTARY INFORMATION

DELTA DIABLO
SUPPLEMENTARY SCHEDULE OF NET POSITION - PROPRIETARY FUND TYPE
ENTERPRISE FUNDS
JUNE 30, 2015

	Waste Water ^(A)	Waste Water Expansion ^(B)	Recycled Water Facility	Hazardous Waste
ASSETS				
CURRENT ASSETS:				
Cash	\$1,666,670	\$681,350	\$247,538	\$289,085
Investments	20,627,179	78,542	3,732,797	
Accounts receivable	634,868		387,952	127,748
Interfund receivable	8,662,000			
Interest receivable	13,460	51	1,984	
Current portion of notes receivable			318,879	1,688
Current portion of employee computer loans receivable	11,967			
Inventory	838,629		68,115	
Prepaid expenses	299,404	2,500	9,462	
Total current assets	<u>32,754,177</u>	<u>762,443</u>	<u>4,766,727</u>	<u>418,521</u>
NON-CURRENT ASSETS:				
Restricted cash and investments	326,358	1,760,762		
Cash and investments	6,495,210			
CAPITAL ASSETS:				
Capital assets, non depreciable	7,013,476	421,097	432,863	
Capital assets, net of accumulated depreciation	91,784,389		33,414,902	1,460,069
Total capital assets, net	<u>98,797,865</u>	<u>421,097</u>	<u>33,847,765</u>	<u>1,460,069</u>
OTHER ASSETS				
Notes receivable less current portion			4,951,089	65,960
Employee notes receivable less current portion	9,391			
Net OPEB asset	1,792,147			
Total other assets	<u>1,801,538</u>		<u>4,951,089</u>	<u>65,960</u>
Total Noncurrent Assets	<u>107,420,971</u>	<u>2,181,859</u>	<u>38,798,854</u>	<u>1,526,029</u>
TOTAL ASSETS	<u>140,175,148</u>	<u>2,944,302</u>	<u>43,565,581</u>	<u>1,944,550</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	1,641,445			
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	1,293,953	80,673	177,774	108,041
Accrued payroll and benefits	606,826	164	23,774	3,710
Interfund payable	372,000	8,290,000		
Deposits payable	96,303	28,780	8,384	
Deferred revenue	18,062			67,649
Compensated absences - due within one year	631,667			
Current portion of long-term debt	419,325	894,525	314,930	
Accreted interest		2,624,532		
Accrued interest payable		3,803		
Total current liabilities	<u>3,438,136</u>	<u>11,922,477</u>	<u>524,862</u>	<u>179,400</u>
NON-CURRENT LIABILITIES:				
Long-term debt, net of current portion:				
Certificates of participation		642,041		
State revolving fund loans	5,024,282	212,825	4,753,149	
Installment sale agreement	1,594,676			
Accreted interest		2,285,306		
Compensated absences - due in more than one year	186,445			
Property tax refund, net of current portion	31,121			
Net pension liability	10,317,451			
Total long-term liabilities	<u>17,153,975</u>	<u>3,140,172</u>	<u>4,753,149</u>	
TOTAL LIABILITIES	<u>20,592,111</u>	<u>15,062,649</u>	<u>5,278,011</u>	<u>179,400</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	2,288,995			
NET POSITION				
Net investment in capital assets	91,759,582	(1,328,294)	28,779,686	1,460,069
Restricted for debt service	326,358	1,760,762		
Restricted for capital projects				
Unrestricted	26,849,547	(12,550,815)	9,507,884	305,081
TOTAL NET POSITION (DEFICIT)	<u>\$118,935,487</u>	<u>(\$12,118,347)</u>	<u>\$38,287,570</u>	<u>\$1,765,150</u>

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

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

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

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

Street Sweeping ^(C)	Bay Point ^(D)	Total
\$82,662	\$85,801	\$3,053,106
924,650	2,559,009	27,922,177
\$51	4,077	1,154,696
		8,662,000
538	1,363	17,396
		320,567
		11,967
		906,744
		311,366
<u>1,007,901</u>	<u>2,650,250</u>	<u>42,360,019</u>
		2,087,120
		6,495,210
	39,230	7,906,666
	<u>3,282,497</u>	<u>129,941,857</u>
	<u>3,321,727</u>	<u>137,848,523</u>
		5,017,049
		9,391
		<u>1,792,147</u>
		<u>6,818,587</u>
	<u>3,321,727</u>	<u>153,249,440</u>
<u>1,007,901</u>	<u>5,971,977</u>	<u>195,609,459</u>
		1,641,445
44,588	73,816	1,778,845
	8,601	643,075
		8,662,000
		133,467
		85,711
		631,667
		1,628,780
		2,624,532
		3,803
<u>44,588</u>	<u>82,417</u>	<u>16,191,880</u>
		642,041
		9,990,256
		1,594,676
		2,285,306
		186,445
		31,121
		10,317,451
		<u>25,047,296</u>
<u>44,588</u>	<u>82,417</u>	<u>41,239,176</u>
		2,288,995
	3,321,727	123,992,770
		2,087,120
<u>963,313</u>	<u>2,567,833</u>	<u>27,642,843</u>
<u>\$963,313</u>	<u>\$5,889,560</u>	<u>\$153,722,733</u>

DELTA DIABLO
SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUND TYPE ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Waste Water ^(A)	Waste Water Expansion ^(B)	Recycled Water Facility	Household Hazardous Waste
OPERATING REVENUES				
Service charges	\$23,820,453		\$3,251,520	
Discharge permits	158,950			
Household hazardous waste operating fees				\$450,714
Miscellaneous	614,706		23,396	3,035
Work for others	895,318			1,571
Total operating revenues	25,489,427		3,274,916	455,320
OPERATING EXPENSES				
Salaries and benefits	11,064,034	(\$1)	697,899	172,150
Chemicals	663,576		415,309	
Depreciation	5,529,224		1,263,286	39,588
Office expense	866,862		29,650	13,316
Operating expense	737,868		83,548	20,576
Outside services and maintenance	2,827,339	50,972	546,921	405,553
Travel and meetings	80,157		302	1,679
Utilities	1,040,427		447,876	540
Other	23,802		(17,644)	
Total operating expenses	22,833,289	50,971	3,467,147	653,402
OPERATING INCOME (LOSS)	2,656,138	(50,971)	(192,231)	(198,082)
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(218,270)	(511,717)	(5,111)	
Interest income	115,994	11,231	67,462	4,933
Capital facilities capacity charges		1,895,782	31,200	
Lease revenue	36,125			
Gain (Loss) on sale of assets	4,034			
State grants	160,683			
Federal grants				
Subgrants			203,021	
Property taxes	1,899,095	75,678		
Total nonoperating revenues	1,997,661	1,470,974	296,572	4,933
NET INCOME (LOSS) BEFORE TRANSFERS	4,653,799	1,420,003	104,341	(193,149)
Transfers In	3,248,269	761,820	1,436,336	160,065
Transfers (Out)	(2,299,730)	(850,961)	(2,455,798)	
Total transfers in (out)	948,539	(89,141)	(1,019,462)	160,065
NET INCOME (LOSS) AFTER TRANSFERS	5,602,338	1,330,862	(915,121)	(33,084)
NET POSITION (DEFICIT), BEGINNING OF YEAR (AS RESTATED)	113,333,149	(13,449,209)	39,202,691	1,798,234
NET POSITION (DEFICIT), END OF YEAR	\$118,935,487	(\$12,118,347)	\$38,287,570	\$1,765,150

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

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

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

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

Street Sweeping ^(C)	Bay Point ^(D)	Total
\$614,235	\$939,905	\$28,626,113
		158,950
		450,714
		641,137
		896,889
<u>614,235</u>	<u>939,905</u>	<u>30,773,803</u>
8,302	361,755	12,304,139
	39	1,078,924
	127,103	6,959,201
	1,409	911,237
	6,747	848,739
543,662	71,019	4,445,466
	2,064	84,202
		1,488,843
	56,655	62,813
<u>551,964</u>	<u>626,791</u>	<u>28,183,564</u>
<u>62,271</u>	<u>313,114</u>	<u>2,590,239</u>
		(735,098)
1,771	5,978	207,369
		1,926,982
		36,125
		4,034
		160,683
		203,021
		1,974,773
<u>1,771</u>	<u>5,978</u>	<u>3,777,889</u>
<u>64,042</u>	<u>319,092</u>	<u>6,368,128</u>
		5,606,490
		(5,606,489)
		1
<u>64,042</u>	<u>319,092</u>	<u>6,368,129</u>
<u>899,271</u>	<u>5,570,468</u>	<u>147,354,604</u>
<u>\$963,313</u>	<u>\$5,889,560</u>	<u>\$153,722,733</u>

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