



Serving Our Community Since 1902

500 Laurel Street, Menlo Park, California 94025-3486 (650) 321-0384 (650)321-4265 FAX

Sergio Ramirez
District Manager

December 10, 2020

MEMORANDUM

TO: West Bay Sanitary District's Customers & Owners

FROM: West Bay Sanitary District Board of Directors

RE: Financial Audit – Fiscal Year 2019-20

Each year, an audit of the financial records of West Bay Sanitary District (WBSD) is completed to assure the management and Board of Directors is exercising its fiduciary responsibilities in maintaining your wastewater system and services.

Attached is the audit report for the fiscal year between July 1, 2019 and June 30, 2020. We are pleased that the auditors found:

1. WBSD is in sound financial condition;
2. The accounting reports fairly reflect the financial condition of WBSD, and
3. The WBSD staff follows sound financial processes and procedures.

We welcome your comments or questions.

WBSD Board of Directors:

| | |
|--------------------|-----------|
| Fran Dehn | President |
| Roy Thiele-Sardina | Treasurer |
| David Walker | Secretary |
| Ned Moritz | Director |
| George Otte | Director |

WEST BAY SANITARY DISTRICT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2020**

* * *



Chavan & Associates, LLP
Certified Public Accountants
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

West Bay Sanitary District

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Bay Sanitary District
Menlo Park, California

Report on the Financial Statements

We have audited the accompanying financial statements of the West Bay Sanitary District (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit 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 opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the West Bay Sanitary District, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of pension contributions - CalPERS, schedule of proportionate share of net pension liability, and schedule of OPEB contributions, and schedule of changes in net OPEB liability, as listed in the table of contents, 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 the required supplementary information in accordance with auditing standards generally accepted 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information 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 it.

Prior-Year Comparative Information

We have previously audited the District's June 30, 2019 financial statements, and we expressed unmodified audit opinions on the respective financial statements in our report dated December 5, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C & A LLP

November 18, 2020
San Jose, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2020

The West Bay Sanitary District (the District) provides wastewater collection and conveyance services to the City of Menlo Park, Atherton, and Portola Valley, and areas of East Palo Alto, Woodside and unincorporated San Mateo and Santa Clara counties. The District conveys raw wastewater, via the Menlo Park Pump Station and force main, to Silicon Valley Clean Water (SVCW) for treatment and discharge to the San Francisco Bay. The District has issued its financial statements for the fiscal year ended June 30, 2020, in conformity with the format prescribed by the provisions of Governmental Accounting Standards. The Management's Discussion and Analysis is an overview of the District's financial activities for the fiscal year and is an integral part of the accompanying Basic Financial Statements. Readers are encouraged to consider the information presented herein with those statements.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$12,406,096 or 10%.
- The District's operating revenue increased by \$421,853 or 1%.
- The District's operating expenses increased by \$3,122,257 or 12%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes the Management's Discussion and Analysis report, the independent auditor's report and the basic financial statements of the District. The financial statements also include notes that explain the information in the financial statements in more detail.

BASIC FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District's accounting methods similar to those used by non-profit organizations. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets, deferred inflows, deferred outflows, and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Position. These statements reflect the result of the District's operations over the past year.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about the District's activities in a way that demonstrate how the prior year affected the District. These two statements report the net position of the District and changes in them. The District's net position, the difference between assets and liabilities, is a measurement of the financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or not. Other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation should also be considered.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2020

NET POSITION

To begin our analysis, a summary of the District's Statement of Net Position is presented in Table 1.

Table 1 - Summary of Net Position

| | 2020 | 2019 | Dollar Change | Percent Change |
|----------------------------------|-----------------------|-----------------------|----------------------|-------------------|
| <u>Assets</u> | | | | |
| Current & Other Assets | \$ 90,637,323 | \$ 75,469,399 | \$ 15,167,924 | 20.1% |
| Capital Assets | 72,451,165 | 68,217,295 | 4,233,870 | 6.2% |
| Total Assets | \$ 163,088,488 | \$ 143,686,694 | \$ 19,401,794 | 13.5% |
| | | | | |
| Deferred Outflows of Resources | \$ 1,096,469 | \$ 1,151,282 | \$ (54,813) | -4.8% |
| <u>Liabilities</u> | | | | |
| Current Liabilities | \$ 4,610,759 | \$ 5,466,441 | \$ (855,682) | -15.7% |
| Noncurrent Liabilities | 23,132,993 | 15,493,229 | 7,639,764 | 49.3% |
| Total Liabilities | \$ 27,743,752 | \$ 20,959,670 | \$ 6,784,082 | 32.4% |
| | | | | |
| Deferred Inflows of Resources | \$ 571,400 | \$ 414,597 | \$ 156,803 | 37.8% |
| <u>Net Position</u> | | | | |
| Net Investment in Capital Assets | \$ 55,854,046 | \$ 57,925,181 | \$ (2,071,135) | -3.6% |
| Unrestricted: | | | | |
| Capital fund budget | 20,981,305 | 16,950,883 | 4,030,422 | 23.8% |
| Invested in SVCW | 29,221,839 | 20,715,554 | 8,506,285 | 41.1% |
| Operations | 9,498,293 | 9,365,601 | 132,692 | 1.4% |
| Unreserved | 20,314,322 | 18,506,490 | 1,807,832 | 9.8% |
| Total Net Position | \$ 135,869,805 | \$ 123,463,709 | \$ 12,406,096 | 10.0% |

The District's total net position increased by \$12,406,096, or 10%, from June 30, 2019 to June 30, 2020, predominately from an increase to its investment in the Silicon Valley Clean Water (SVCW), which increased by \$8,506,285. The District's current and other assets increased by \$15,167,924. Capital assets, net of depreciation, increased by \$4,233,870 from capital spending totaling \$10,940,674. Total liabilities increased by \$6,784,082 primarily due to increases to the District's State Revolving Fund (SRF) loan of \$6,305,007 for the Sharon Heights Recycled Water Project. The SRF loan will be paid by Sharon Heights Golf & Country Club over the thirty year term.

CHANGES IN NET POSITION

The Statement of Activities and Changes in Net Position in Table 2 provides answers as to the nature and sources of the changes shown in Table 1. Operating revenues increased by \$421,853 (1%). Connection fees decreased \$1,751,751 over the prior year as a result of a decrease in new commercial and residential developments as compared to the prior year. Total operating expenses, which include sewage treatment plant, collection, general administration, and depreciation, increased \$3,122,257 (12%) over the prior year. The majority was due to increased contributions to SVCW for sewage treatment plant capital projects. The District had increased salary and benefits costs of 19%, with new and retiring staff and union negotiated increases of 4%. District's changes in net position for the year are summarized in Table 2.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2020

Table 2 summarizes the District's changes in net position for the year.

Table 2 - Change in Net Position

| | 2020 | 2019 | Dollar Change | Percent Change |
|--|----------------------|----------------------|-----------------------|-------------------|
| <u>Revenues</u> | | | | |
| Operating Revenue | \$ 31,032,007 | \$ 30,610,154 | \$ 421,853 | 1.4% |
| <u>Operating Expenses</u> | | | | |
| Sewage treatment plant (SVCW) | 19,551,978 | 17,390,469 | 2,161,509 | 12.4% |
| Sewage collection and general administration | 8,587,298 | 7,567,815 | 1,019,483 | 13.5% |
| Depreciation | 2,043,269 | 2,102,004 | (58,735) | -2.8% |
| Total Operating Expenses | 30,182,545 | 27,060,288 | 3,122,257 | 11.5% |
| <u>Operating Income (Loss)</u> | | | | |
| Investment income | 849,462 | 3,549,866 | (2,700,404) | -76.1% |
| Interest expense | 1,147,848 | 1,597,431 | (449,583) | -28.1% |
| Other nonoperating revenue (expense) | (146,255) | - | (146,255) | -100.0% |
| Increase (decrease) of equity in SVCW | 368,361 | 4,656 | 363,705 | 7811.5% |
| SRF grant reimbursements | 8,506,285 | 7,682,356 | 823,929 | 10.7% |
| Connection Fees | 2,551,135 | - | 2,551,135 | 100.0% |
| | 572,970 | 2,324,721 | (1,751,751) | -75.4% |
| Change in Net Position Current | 13,849,806 | 15,159,030 | (1,309,224) | -8.6% |
| Prior Period Adjustments to Beginning Net Position | (1,443,710) | - | (1,443,710) | -100.0% |
| Total Change in Net Position | \$ 12,406,096 | \$ 15,159,030 | \$ (2,752,934) | -18.2% |

Wastewater transmission, treatment, and effluent disposal services is provided by Silicon Valley Clean Water (SVCW), formerly South Bayside System Authority, which was created in 1975 under a Joint exercise of Powers Agreement to construct and operate a sewage treatment facility at Redwood Shores for the District and the cities of Belmont, San Carlos, and Redwood City. As a member of the JPA the District is liable for its share of SVCW operating expenses. For the year ending June 30, 2020, the District's share was 23.91% which increased by 4.09% from the prior year. Sewer treatment plant expense includes all funds paid to or on behalf of SVCW.

The District reduced the beginning net position by \$1,443,710 which included a decrease to capital assets of \$4,152,375, related to depreciation adjustments, and a decrease to the SRF loan payable of \$2,708,665 to record amounts received in 2018-19 from the Capitalization Grants for Clean Water State Revolving Funds. The total grant was \$5,259,800, with the balance received in 2019-20.

BUDGETARY HIGHLIGHTS

The District adopts an annual budget which provides for general operations and capital projects. Budgets are prepared on the accrual basis of accounting. The District maintains long-term financial plans for vehicle and equipment replacement and multi-year capital projects. Table 3 shows a comparison of actual to budget for general operations for the year ended June 30, 2020.

The District reported \$416,047 (1%) less in operating revenue than budgeted primarily resulting from lower sewer service fees than anticipated, this was due to delays at several commercial developments, therefore postponing sewer service. Total operating expenses were \$1,458,359 (5%) less than budgeted as a result of depreciation (18%) and sewage treatment expenses (4%) lower than expected.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2020

Table 3 shows a comparison of actual to budget for general operations for the year ended June 30, 2020.

Table 3 - Budget Summary

| | Budget | Actual | Variance | Percent Variance |
|--|-------------------|----------------------|----------------------|---------------------|
| Revenues | | | | |
| Operating Revenue | \$ 31,448,053 | \$ 31,032,007 | \$ (416,046) | -1.3% |
| Operating Expenses | | | | |
| Sewage treatment plant (SVCW) | 20,428,360 | 19,551,978 | 876,382 | 4.5% |
| Sewage collection and general administration | 8,712,544 | 8,587,298 | 125,246 | 1.5% |
| Depreciation | 2,500,000 | 2,043,269 | 456,731 | 22.4% |
| Total Operating Expenses | 31,640,904 | 30,182,545 | 1,458,359 | 4.8% |
| Operating Income (Loss) | | | | |
| Nonoperating Revenue (Expense) | (192,851) | 849,462 | 1,042,313 | 540.5% |
| Increase (Decrease) of Equity in SVCW | 298,000 | 1,369,954 | 1,071,954 | 78.2% |
| SRF grant reimbursements | - | 8,506,285 | 8,506,285 | -100.0% |
| SRF grant reimbursements | - | 2,551,135 | 2,551,135 | -100.0% |
| Connection Fees | - | 572,970 | 572,970 | -100.0% |
| Change in Net Position | \$ 105,149 | \$ 13,849,806 | \$ 13,744,657 | 13071.6% |

Table 4 summarizes the capital budget for the fiscal year ended June 30, 2020.

Table 4 - Capital Fund Budget Summary

| | Budget | Actual | Variance | Percent Variance |
|---------------------------------------|---------------------|----------------------|----------------------|---------------------|
| Transfer from Operations | \$ (257,851) | \$ 849,465 | \$ 1,107,316 | 130% |
| Capital Expenditures | (15,187,699) | (9,806,196) | 5,381,503 | 55% |
| State Revolving Fund | - | 6,305,007 | 6,305,007 | -100% |
| Connection Charges | 500,000 | 572,970 | 72,970 | 15% |
| Interest Income | 50,000 | 169,467 | 119,467 | 239% |
| Transfers to Capital Reserve Accounts | 700,000 | 1,828,541 | 1,128,541 | 161% |
| Change in capital Asset Fund | (14,195,550) | (80,746) | 14,114,804 | -17480% |
| Beginning Fund Balance | 21,062,051 | 21,062,051 | - | 0% |
| Ending Fund Balance | \$ 6,866,501 | \$ 20,981,305 | \$ 14,114,804 | 206% |

Capital Expenditures of \$9,806,196 including \$2,672,383 for the District capital projects, including administration, collection facilities, vehicles and equipment, and replacement and rehabilitate sewer infrastructure. These projects were \$4,596,667 under budget as a result of delays caused by county and state shutdowns due to the Covid-19 pandemic. Additionally, the District expended \$7,133,813 on the Sharon Heights Recycled Water Facility, which is funded by the SRF loan. The District had an ending Capital Asset Fund balance of \$20,981,305, as shown in Table 4, which is designated for capital projects.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2020

CAPITAL ASSETS

Table 5 shows a summary of capital assets owned by the District as of June 30, 2020.

Table 5 - Summary of Capital Assets Net of Depreciation

| | 2020 | 2019 | Dollar Change | Percent Change |
|-------------------------------------|----------------------|----------------------|---------------------|-------------------|
| Land | \$ 44,467 | \$ 44,467 | \$ - | 0.00% |
| Construction in Progress | 30,305,139 | 21,889,228 | 8,415,911 | 38.45% |
| Pump stations | 4,352,676 | 5,344,001 | (991,325) | -18.55% |
| Fleet | 1,021,851 | 765,991 | 255,860 | 33.40% |
| Plant and administration facilities | 428,108 | 358,715 | 69,393 | 19.34% |
| Buildings | 1,646,789 | 1,718,822 | (72,033) | -4.19% |
| Flow equalization facilities | 282,032 | 381,858 | (99,826) | -26.14% |
| Subsurface lines | 34,370,103 | 37,714,213 | (3,344,110) | -8.87% |
| Net Capital Assets | \$ 72,451,165 | \$ 68,217,295 | \$ 4,233,870 | 6.21% |

ECONOMIC FACTORS

The District is governed in part by provisions of the California Constitution that require the District to set rates that cover only the costs of operation, maintenance and recurring capital replacement (OM&R). The District is not subject to general economic conditions for sewer service charges such as increases or declines in property values that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of OM&R plus any increments for known or anticipated changes in program costs. The District regulates operating costs by managing expenses and reserving for future operations.

The District provides an essential government function, therefore essential sanitary and sewer services have continued during the shutdown due to the Covid-19 Declaration of National Emergency and Shelter in Place Orders effective March 19, 2020, with minimal disruption and completed 100% of internal maintenance and performance goals.

While the District continued to operate, the shutdown effected vendors, resulting in higher costs for personal protective equipment (PPE) and some delays, especially in capital projects. Suspension in private construction reduces connection fees and anticipated sewer service charges. Additionally, many commercial customers were shutdown, possibly resulting in lower water usage, which may reduce sewer service charges in the following year. Commercial customers represent 3% of all customers and 23% of revenue. Sewer Service Fees for residential customers are not impacted, as they pay flat rates.

A favorable effect of the current economics, SVCW has been able to take advantage of lower interest rates for the Regional Environmental Sewer Conveyance Upgrade project, which replaces a 60-year-old sewer main, rehabilitates and/or reduces the number of pump stations, and builds a new headworks pretreatment facility in the front of the existing treatment plant. The re-execution of a \$218 million WIFIA Loan, reducing the interest rate from 2.40% to 1.41%, saves the District over \$483 thousand annually and almost \$15 million over the life of the District's \$80.7 million share. Additionally, refunding existing bonds and SRF loan with a new bond issue in 2020 and a SRF loan at 0.90% interest, will save the District an additional \$21 million in interest expense over the next 37 years.

CONTACTING THE DISTRICT

This financial report is designed to provide a general overview of the District's finances and demonstrate the District's accountability for the funds it receives. If you have any questions related to the District, please contact the District at 500 Laurel Street, Menlo Park, CA 94025 or call (650) 321-0384.

BASIC FINANCIAL STATEMENTS

West Bay Sanitary District
Statement of Net Position
June 30, 2020
(With Comparative Totals as of June 30, 2019)

| Assets | 2020 | 2019 |
|---|-----------------------|-----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 36,868,824 | \$ 31,817,190 |
| Restricted cash and investments | 1,762,989 | 1,871,526 |
| Accounts receivable | 1,801,786 | 345,126 |
| SWRCB receivable | 640,886 | - |
| Interest receivable | 249,607 | 338,272 |
| Prepaid expenses and other current assets | 706,691 | 32,182 |
| Total Current Assets | <u>42,030,783</u> | <u>34,404,296</u> |
| Noncurrent Assets: | | |
| Investments | 19,384,701 | 20,349,549 |
| Investment in Silicon Valley Clean Water | 29,221,839 | 20,715,554 |
| Capital assets: | | |
| Non-depreciable | 30,349,606 | 21,933,695 |
| Depreciable net of accumulated depreciation | 42,101,559 | 46,283,600 |
| Total Capital Assets - Net | <u>72,451,165</u> | <u>68,217,295</u> |
| Total Noncurrent Assets - Net | <u>121,057,705</u> | <u>109,282,398</u> |
| Total Assets | <u>\$ 163,088,488</u> | <u>\$ 143,686,694</u> |
| Deferred Outflows of Resources | | |
| OPEB adjustments | \$ 63,633 | \$ 9,418 |
| Pension adjustments | 1,032,836 | 1,141,864 |
| Total Deferred Outflows of Resources | <u>\$ 1,096,469</u> | <u>\$ 1,151,282</u> |
| Liabilities | | |
| Current Liabilities: | | |
| Accounts payable | \$ 4,162,801 | \$ 5,240,127 |
| Payroll and related liabilities | 144,720 | 3,701 |
| SHGCC SRF loan payment advance - current | 135,112 | - |
| Construction deposits | 17,381 | 8,672 |
| Compensated absences payable - current | 150,745 | 213,941 |
| Total Current Liabilities | <u>4,610,759</u> | <u>5,466,441</u> |
| Noncurrent Liabilities: | | |
| Net OPEB liability | 111,239 | 55,871 |
| Net pension liability | 5,494,504 | 5,054,719 |
| State Revolving Fund Loan | 16,597,119 | 10,292,112 |
| SHGCC SRF loan payment advance - noncurrent | 743,095 | - |
| Accrued Interest | 36,292 | - |
| Compensated absences payable - noncurrent | 150,744 | 90,527 |
| Total Noncurrent Liabilities | <u>23,132,993</u> | <u>15,493,229</u> |
| Total Liabilities | <u>\$ 27,743,752</u> | <u>\$ 20,959,670</u> |
| Deferred Inflows of Resources | | |
| OPEB adjustments | \$ 5,899 | \$ 4,520 |
| Pension adjustments | 565,501 | 410,077 |
| Total Deferred Inflows of Resources | <u>\$ 571,400</u> | <u>\$ 414,597</u> |
| Net Position | | |
| Net Investment in Capital Assets | \$ 55,854,046 | \$ 57,925,183 |
| Unrestricted: | | |
| Capital fund budget | 20,981,305 | 16,950,883 |
| Invested in Silicon Valley Clean Water | 29,221,839 | 20,715,554 |
| Operations | 9,498,293 | 9,365,601 |
| Unreserved | 20,314,322 | 18,506,488 |
| Total Net Position | <u>\$ 135,869,805</u> | <u>\$ 123,463,709</u> |

The notes to the financial statements are an integral part of this statement.

West Bay Sanitary District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2020
(With Comparative Totals for the Fiscal Year Ended June 30, 2019)

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| Operating Revenues: | | |
| Service charges | \$ 30,003,748 | \$ 29,499,873 |
| Flow equalization uses | 351,138 | 337,633 |
| Permit and inspection fees and other services | 148,144 | 230,494 |
| Other operating revenues | 528,977 | 542,154 |
| Total operating revenues | 31,032,007 | 30,610,154 |
| Operating Expenses: | | |
| Sewage treatment plant (SVCW) | 19,551,978 | 17,390,469 |
| Sewage collection and general administration: | | |
| Salaries and benefits | 5,894,953 | 5,430,077 |
| Materials and supplies | 446,835 | 409,172 |
| Insurance | 131,737 | 94,071 |
| Contract services | 388,061 | 386,451 |
| Professional services | 306,237 | 531,394 |
| Repairs and maintenance | 271,062 | 252,275 |
| Utilities | 145,849 | 176,767 |
| Other operating expenses | 1,002,564 | 287,608 |
| Total sewage collection and general administration | 8,587,298 | 7,567,815 |
| Depreciation | 2,043,269 | 2,102,004 |
| Total operating expenses | 30,182,545 | 27,060,288 |
| Operating Income (Loss) | 849,462 | 3,549,866 |
| Nonoperating Revenues (Expenses): | | |
| Investment income | 1,147,848 | 1,597,431 |
| Interest expense | (146,255) | - |
| Increase (decrease) of equity in Silicon Valley Clean Water | 8,506,285 | 7,682,356 |
| Other nonoperating revenues | 368,361 | 4,656 |
| Total nonoperating revenues (expenses) | 9,876,239 | 9,284,443 |
| Income before contributions | 10,725,701 | 12,834,309 |
| Recycled Water Fund: Capital Grant | 2,551,135 | - |
| Capital Fund: Connection Fees | 572,970 | 2,324,721 |
| Change in Net Position | 13,849,806 | 15,159,030 |
| Beginning Net Position | 123,463,709 | 108,304,679 |
| Prior Period Adjustments | (1,443,710) | - |
| Beginning Net Position - As Adjusted | 122,019,999 | 108,304,679 |
| Ending Net Position | \$ 135,869,805 | \$ 123,463,709 |

The notes to the financial statements are an integral part of this statement.

West Bay Sanitary District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020
(With Comparative Totals for the Fiscal Year Ended June 30, 2019)

| | 2020 | 2019 |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Cash received from customers | \$ 29,584,056 | \$ 30,462,674 |
| Cash payments to suppliers for goods and services | (23,996,158) | (20,300,880) |
| Cash payments to employees for services | (3,969,248) | (3,429,734) |
| Cash payments of benefits on behalf of employees | (1,080,896) | (1,509,931) |
| Net Cash Provided (Used) by Operating Activities | <u>537,754</u> | <u>5,222,129</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Cash received from connection fees | 572,970 | 2,324,721 |
| Cash received from the State Revolving Fund loan | 8,262,823 | 9,305,098 |
| Cash received from the State Revolving Fund grants | 2,551,135 | - |
| SHGCC SRF loan payment advance | 878,207 | - |
| Cash received on the sale of capital assets | 4,907 | 3,061 |
| Purchases and construction of capital assets | (10,382,558) | (18,388,880) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>1,887,484</u> | <u>(6,756,000)</u> |
| Cash Flows from Investing Activities: | | |
| Transfers to investment accounts | (3,812,408) | (3,472,583) |
| Transfers from investment accounts | 5,319,929 | 9,221,460 |
| Investment income | 1,118,875 | 569,857 |
| Net Cash Provided (Used) by Investing Activities | <u>2,626,396</u> | <u>6,318,734</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 5,051,634 | 4,784,863 |
| Cash and Cash Equivalents Beginning | <u>31,817,190</u> | <u>27,032,327</u> |
| Cash and Cash Equivalents Ending | <u>\$ 36,868,824</u> | <u>\$ 31,817,190</u> |
| Reconciliation of Operating Income to Cash Flows Provided by Operating Activities: | | |
| Operating Income (Loss) | \$ 849,462 | \$ 3,549,866 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 2,043,269 | 2,102,004 |
| Net change in: | | |
| Accounts receivable | (1,456,660) | (147,480) |
| Prepaid expenses and other current assets | (674,509) | (3,444) |
| Deferred outflows of resources | 54,813 | 352,326 |
| Accounts payable | (1,077,326) | (771,777) |
| Payroll and related liabilities | 141,019 | (5,972) |
| Construction deposits | 8,709 | - |
| Compensated absences | (2,979) | 21,999 |
| Net OPEB liability | 55,368 | (2,528) |
| Net pension liability | 439,785 | (66,242) |
| Deferred inflows of resources | 156,803 | 193,377 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 537,754</u> | <u>\$ 5,222,129</u> |

The notes to the financial statements are an integral part of this statement.

West Bay Sanitary District
Notes to Financial Statements
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NOTE 1 - NATURE OF ORGANIZATION

West Bay Sanitary District (District) is a State of California Special District and was formed for the purpose of protecting water quality and the associated public health. The District is responsible for wastewater collections, treatment, reclamation and disposal. The District performs the services of wastewater collection, and together with three other public entities is part of a Joint Powers District for the treatment, disposal and reclamation of wastewater. The District is also responsible for refuse (solid waste) collection, treatment, disposal and reclamation. It franchises with a solid waste organization to perform these refuse services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The District's Basic Financial Statements are prepared in accordance with the policies and procedures for California special districts. The accounting policies of the District conform to accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

The District is accounted for as an enterprise fund because the intent of the governing body is that the cost (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is emphasized and the full accrual basis of accounting is required. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

Enterprise funds are accounted for on a cost of services or economic resources measurement focus, which means that all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with their activity are included on their balance sheets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Deferred outflows of resources is a consumption of net assets by the District that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflows of resources is an acquisition of net assets by the District that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

The District applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State*

West Bay Sanitary District
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and Local Governments. GASB 76 also amends GASB 62 and AICPA Pronouncements paragraphs 64, 74, and 82. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A)
- b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B).

If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B.

Statement of Net Position

The statement of net position is designed to display the financial position of the District. The District's net position are classified into three categories as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.
- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for services. Operating expenses for the District include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

West Bay Sanitary District
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Service Charges

Service Charges are collected for providing sewer services within the District's territory. The majority of revenues are collected by the County of San Mateo through annual property tax billings. Customers not included in tax roll are manually billed by District.

Connection Fees

Connection fees are reported as revenue only to the extent the amount equals the costs of the physical connection to the system.

Budgets and Budgetary Accounting

Budgets are prepared on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by the Board of Directors. Project-length financial plans are adopted for all capital projects funds.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of three months or less.

Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for Deposits and Investment Risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

The District participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

West Bay Sanitary District
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- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Accounts Receivables

Receivables include amounts due from collection services and other assessments or resources. All receivables are current and reported net of an allowance for uncollectible accounts as applicable. The allowance for uncollectible accounts was zero as of June 30, 2020.

Capital Assets

Property, plant and equipment contributed to the District are stated at estimated fair value at the time of contribution. District policy has set the capitalization threshold for reporting capital assets at \$5,000 if an asset has an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The purpose of depreciation is to spread the cost of plant and equipment equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of plant and equipment cost.

Depreciation of all plant and equipment in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of the capital assets.

The District has assigned the useful lives listed below to plant and equipment:

| | |
|-------------------------------------|-------------|
| Pump Stations | 5-30 years |
| Fleet | 5-10 years |
| Plant and administration facilities | 3-10 years |
| Buildings | 5-30 years |
| Flow equalization facilities | 10-30 years |
| Subsurface lines | 5-50 years |

Long-Term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Compensated Absences

Compensated absences include vacation leave and floating holidays. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to the employees.

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Pensions

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 District's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB Statement No. 68, *accounting and financial reporting for Pensions – an amendment of GASB Statement No. 27* requires that the reported results must pertain to liability and asset information within certain defined time frames. For the period, the following time frames were used.

| | |
|--------------------|-------------------------------|
| Valuation Date | June 30, 2018 |
| Measurement Date | July 1, 2019 |
| Measurement Period | July 1, 2018 to June 30, 2019 |

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions are based on the when they are due and payable in accordance with the benefit terms for the measurement period included in the OPEB plan's actuarial reports. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracted that have a maturity at the time of purchase of one year or less, which are reported at cost.

| | |
|--------------------|-------------------------------|
| Valuation Date | June 30, 2019 |
| Measurement Date | June 30, 2019 |
| Measurement Period | July 1, 2018 to June 30, 2019 |

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Upcoming New Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2018 but have been delayed to periods beginning after December

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Notes to Financial Statements
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15, 2019, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2019 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2019 but have been delayed to periods beginning after December 15, 2020, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2018, but have been delayed to periods beginning after December 15, 2019, pursuant to GASB Statement No. 95. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2)

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arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2020 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 92, *Omnibus 2020*

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*

This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 94, *Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements*

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or

West Bay Sanitary District
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operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged. The District does not believe this statement will have a significant impact on the District's financial statements.

NOTE 3 - CASH AND INVESTMENTS

The District's cash and investments consisted of the following as of June 30, 2020 and 2019:

| Description | Rating | Fair Value June 30, 2020 | Maturities | | Concen- trations |
|--|------------|-----------------------------|----------------------|----------------------|---------------------|
| | | | 12 Months or Less | 13 - 24 Months | |
| Bank of the West Investments: | | | | | |
| Fixed Income | AA+/BBB | \$ 18,382,478 | \$ 8,234,656 | \$ 10,147,822 | 31.68% |
| Cash | N/A | 1,002,223 | 1,002,223 | - | 1.73% |
| Total Bank of West Investments | AAA | 19,384,701 | 9,236,879 | 10,147,822 | 33.41% |
| Cash and Cash Equivalents: | | | | | |
| Cash on hand and in banks | N/A | 195,673 | 195,673 | - | 0.34% |
| Money Market | N/A | 607,251 | 607,251 | - | 1.05% |
| Cash with fiscal agents | N/A | 1,762,989 | 1,762,989 | - | 3.04% |
| LAIF | N/A | 36,065,300 | 36,065,300 | - | 62.16% |
| Petty Cash | N/A | 600 | 600 | - | 0.00% |
| Total Cash and Cash Equivalents | | 38,631,813 | 38,631,813 | - | 66.59% |
| Total Cash and Investments | | \$ 58,016,514 | \$ 47,868,692 | \$ 10,147,822 | 100.00% |

Cash Deposits

Interest bearing bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC"). The bank balance of the District's cash in bank, which was \$563,616, exceeded the insured limit by \$313,616 as of June 30, 2020. None of the District's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts. All of the District's accounts met the collateral and categorization requirements as noted in the following paragraphs.

Collateral and Categorization Requirements

The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency's total deposits.

Investment Policy

The District's investment guidelines as defined by its written investment policy were approved by the Board of Directors. Implementation and direction is established by an internal finance committee. Monthly, the Board reviews the investment balances. Investments are ratified quarterly by the Board.

West Bay Sanitary District
Notes to Financial Statements
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The District's investment policy follows the California Government Code which authorizes the District to invest in the following:

| <u>Authorized Investment Type</u> | <u>Maximum Maturity (1)</u> | <u>Maximum Total of Portfolio</u> | <u>Maximum Investment in Anyone Issuer</u> |
|-------------------------------------|---------------------------------|---|--|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | 20% | None |
| Reverse Repurchase Agreements | 92 days | 20% | None |
| Medium-Term Notes | 5 years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 2 years | 20% | None |
| County Pooled Investment Funds | 1 year | 20% | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| JPA Pools (other investment pools) | N/A | None | None |

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

All of the Districts investments were valued using Level s2 inputs as noted above.

Local Agency Investment Fund

LAIF allows local agencies such as the District to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local District Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2020, was approximately \$101 billion of that amount, 99.43% was invested in non-derivative financial products and .57% was invested in structured notes and asset-backed securities. The average maturity for the investment in LAIF was 191 days.

West Bay Sanitary District
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Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due to failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of the District's investments were subject to custodial credit risk.
- *Concentration of Credit Risk* - See the chart above for the District's limitations on the amount that can be invested in any one issuer.

NOTE 4 - INVESTMENT IN SILICON VALLEY CLEAN WATER

Silicon Valley Clean Water (SVCW), formerly South Bayside System Authority, was founded in 1975 as the successor to the Strategic Consolidation Sewerage Plan, from which SVCW took title to property including sanitary sewerage pumping stations, as well as transmission and outfall facilities originally constructed by that plan. SVCW is a joint exercise of powers agency between the District, the Cities of Belmont, Redwood City, and San Carlos. The Agency's wastewater treatment plant is in the City of Redwood City and serves more than 225,000 people and businesses in San Mateo County, California. SVCW provides wastewater transmission, treatment, and effluent disposal services member agencies. At June 30, 2020 and 2019, the District had approximately 23.91% and 19.82%, respectively, in equity interest in SVCW, which is reported using the equity method of accounting. The District's investment in SVCW at June 30, 2020 and 2019 was \$29,221,839 and \$20,715,554, respectively, as reflected on the statement of net position. The change in the investment for the years ended June 30, 2020 and 2019 was an increase of \$8,506,285 and a decrease of \$7,682,356, respectively, as reflected in the statement of revenues, expenses and changes in net position. During the year ended June 30, 2020, the District contributed \$7,598,964 toward the cost of operating and maintaining the facility and paid debt principal and interest of \$11,226,171 that included the State revolving fund loan and the financing agreements to finance the construction and rehabilitation of the SVCW's wastewater system.

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The 2020 changes in the District’s equity share was mostly attributed to the fact that not all members share in the long-term debt, only the net position, or equity, of the participating members decreases upon the issuance of new debt, while the “non-debt” member’s net position increases. In addition, the non-debt members contribute more cash into the JPA than other members to cover their share of capital improvements, which increases the equity share of non-debt members and decreases the share of other participating agencies. SVCW’s governing commission consists of four members, one appointed from each of the four participating agencies. SVCW’s condensed audited financial information is presented below for the year ended June 30, 2019, (most recent information available):

| | June 30, 2019 |
|--------------------------------|----------------|
| Total Assets | \$ 479,334,378 |
| Deferred Outflows of Resources | 5,611,134 |
| Total Liabilities | 378,937,205 |
| Deferred Inflows of Resources | 1,246,858 |
| Total Equity | 104,761,449 |
| Total Revenues | 74,567,023 |
| Total Expenditures | 49,723,753 |

Financial statements may be obtained by mailing a request to Silicon Valley Clean Water, 1400 Radio Road, Redwood City, CA 94065.

The District entered into financing agreements with SVCW for repayment of the District’s allocated share of the 2009, 2014, 2015 and 2018 bonds in the amount of \$95,717,502, including principal and interest. The financing agreements are secured by a pledge of the District’s sewer Revenue as defined under the financing agreements. For fiscal year 2019, gross Sewer Fund revenues, including operating revenues and non-operating interest earnings, amounted to \$30,003,748. The annual debt service commitment of \$3,087,661 is summarized as follows:

| Fiscal year ending: | Principal | Interest |
|---------------------|---------------|---------------|
| 2028 | \$ 1,480,236 | \$ 1,607,425 |
| 2029 | 1,515,762 | 1,571,900 |
| 2030 | 1,552,140 | 1,535,521 |
| 2031 | 1,589,391 | 1,498,270 |
| 2032 | 1,627,537 | 1,460,125 |
| 2033-2037 | 8,742,688 | 6,695,619 |
| 2038-2042 | 9,843,391 | 5,594,916 |
| 2043-2047 | 11,082,673 | 4,355,634 |
| 2048-2052 | 12,477,981 | 2,960,326 |
| 2053-2057 | 14,048,957 | 1,389,350 |
| 2058-2059 | 3,015,294 | 72,367 |
| Total debt service | \$ 66,976,050 | \$ 28,741,453 |

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

NOTE 5 - CAPITAL ASSETS (PROPERTY, PLANT AND EQUIPMENT)

The District's capital assets consisted of the following as of June 30, 2020:

| Description | Balance June 30, 2019 | Additions | Adjustments & Deletions | Balance June 30, 2020 |
|---|--------------------------|---------------------|----------------------------|--------------------------|
| Non-depreciable Capital Assets: | | | | |
| Land | \$ 44,467 | \$ - | \$ - | \$ 44,467 |
| Construction in progress | 21,889,228 | 9,249,252 | (833,341) | 30,305,139 |
| Total non-depreciable capital assets | 21,933,695 | 9,249,252 | (833,341) | 30,349,606 |
| Depreciable Capital Assets: | | | | |
| Pump stations | 7,675,435 | 175,943 | - | 7,851,378 |
| Fleet | 2,565,146 | 288,470 | - | 2,853,616 |
| Plant and administration facilities | 1,458,470 | 196,565 | (301,140) | 1,353,895 |
| Buildings | 3,004,405 | 20,679 | - | 3,025,084 |
| Flow equalization facilities | 2,884,719 | - | - | 2,884,719 |
| Subsurface lines | 58,440,174 | 1,009,765 | - | 59,449,939 |
| Total depreciable capital assets | 76,028,349 | 1,691,422 | (301,140) | 77,418,631 |
| Less accumulated depreciation for: | | | | |
| Pump stations | (2,331,434) | (240,225) | (927,043) | (3,498,702) |
| Fleet | (1,799,155) | (175,744) | 143,134 | (1,831,765) |
| Plant and administration facilities | (1,099,755) | (78,359) | 252,327 | (925,787) |
| Buildings | (1,285,583) | (94,122) | 1,410 | (1,378,295) |
| Flow equalization facilities | (2,502,861) | (92,295) | (7,531) | (2,602,687) |
| Subsurface lines | (20,725,961) | (1,362,524) | (2,991,351) | (25,079,836) |
| Total accumulated depreciation | (29,744,749) | (2,043,269) | (3,529,054) | (35,317,072) |
| Total depreciable capital assets - net | 46,283,600 | (351,847) | (3,830,194) | 42,101,559 |
| Total capital assets - net | \$ 68,217,295 | \$ 8,897,405 | \$ (4,663,535) | \$ 72,451,165 |

Depreciation expense for the year ended June 30, 2020 and 2019 was \$2,043,269 and \$2,102,004, respectively.

The following details construction in progress as of June 30, 2020:

| Project | Balance |
|--|----------------------|
| FEF Metal Storage Building | \$ 114,266 |
| Belle Haven III | 5,500,894 |
| Levee Design | 105,533 |
| Emergency Repairs to Alpine Rd | 1,712,657 |
| Gilbert Bay North | 172,967 |
| Sharon Heights Recycled Water Facility | 22,385,514 |
| Bayside | 313,308 |
| Total Construction in Progress | \$ 30,305,139 |

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

NOTE 6 - NONCURRENT LIABILITIES

The District's noncurrent liabilities consisted of the following as of June 30, 2020:

| Description | Balance July 01, 2019 | Additions | Adjustments/ Deductions | Balance June 30, 2020 | Due Within One Year |
|-------------------------------------|--------------------------|----------------------|----------------------------|--------------------------|------------------------|
| Net OPEB Liability | \$ 55,871 | \$ 75,805 | \$ 20,437 | \$ 111,239 | \$ - |
| Net Pension Liability | 5,054,719 | 2,257,987 | 1,818,202 | 5,494,504 | - |
| State Revolving Fund Loan | 10,292,112 | 9,013,672 | 2,708,665 | 16,597,119 | - |
| Compensated Absences | 304,468 | - | 2,979 | 301,489 | 150,745 |
| Total Noncurrent Liabilities | \$ 15,707,170 | \$ 11,347,464 | \$ 4,550,283 | \$ 22,504,351 | \$ 150,745 |

State Revolving Fund Loan

The District has entered into a \$22,595,000 agreement with the State Water Resources Control Board (SWRCB or State Revolving Fund Loan) to finance the Sharon Heights Recycled Water project. The final funding includes a grant of \$5,259,800.00, federal loan of \$987,014, and state loan of \$16,020,443. Through June 30, 2020, the SRF loan balance was \$ 16,597,119, with disbursement and applied interest of \$109,963. The loan funds and accrued interest will be repaid in annual installments commencing on March 31, 2021, one year after the state recognized the project completion on March 31, 2020. Sharon Heights Golf & Country Club will pre-fund the annual SRF loan payments. The District accepted project completion July 26, 2020. The following summarizes the total estimated debt service to be repaid by June 30, 2050:

| Fiscal Year Ending June 30: | Principal | Interest | Total |
|-----------------------------|----------------------|---------------------|----------------------|
| 2021 | \$ 483,079 | \$ 159,791 | \$ 642,870 |
| 2022 | 481,730 | 161,140 | 642,870 |
| 2023 | 486,547 | 156,323 | 642,870 |
| 2024 | 491,412 | 151,458 | 642,870 |
| 2025 | 496,326 | 146,544 | 642,870 |
| 2026-30 | 2,557,081 | 657,268 | 3,214,349 |
| 2031-35 | 2,687,518 | 526,832 | 3,214,350 |
| 2036-40 | 2,824,609 | 389,741 | 3,214,350 |
| 2041-45 | 2,968,692 | 245,658 | 3,214,350 |
| 2046-50 | 3,120,125 | 94,225 | 3,214,350 |
| Total Debt Service | \$ 16,597,119 | \$ 2,688,980 | \$ 19,286,099 |

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

NOTE 7 - BOARD COMMITMENTS OF NET POSITION

Commitments are imposed by the District's Board to reflect future spending plans or concerns about the availability of future resources. Commitments may be modified, amended or removed by Board action. Commitments for future capital assets replacement is the portion of net position to be used for new equipment and for emergency and scheduled replacement of capital facilities paid from connection fees. Commitments for operations have been set-aside to reserve approximately five months of operating expenses. The Board committed the following unrestricted net position as of June 30, 2020:

| Description | Balance |
|---|----------------------|
| Capital fund budget | \$ 20,981,305 |
| Invested in Silicon Valley Clean Water | 29,221,839 |
| Operations | 9,498,293 |
| Total Committed Net Unrestricted Position | <u>\$ 59,701,437</u> |

NOTE 8 - DEFERRED COMPENSATION PLAN

District employees may defer a portion of their compensation under a District-sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefits of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property and are not subject to District control, they are not included in these financial statements.

NOTE 9 - RISK MANAGEMENT

The District joined together with other sanitary districts in the State to form California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program. The District is insured for the costs of claims through CSRMA and commercial insurance carriers for the following:

| Type of Coverage | Limits | Deductibles |
|--|------------------|-------------|
| General Liability | 15,500,000 | 25,000 |
| Employment Practices Liability | 15,500,000 | 25,000 |
| Worker's Compensation | 750,000 | None |
| Excess Worker's Compensation Liability | Statutory Limits | None |
| Mobile Equipment | 767,005 | 2,000 |
| Special Form Property | 1,003,385 | 5,000 |
| Public Official Bond | 100,000 | None |

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

The District has incurred two claims that has exceeded its insurance coverage limits in the last three years.

Audited condensed financial information for CSRMA is presented below for the year ended **June 30, 2019** (most recent information available):

| | June 30, 2019 |
|--------------------|---------------|
| Total Assets | \$ 26,991,334 |
| Total Liabilities | 20,588,467 |
| Total Equity | 6,402,867 |
| Total Revenues | 12,068,611 |
| Total Expenditures | 14,577,244 |

NOTE 10 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Employee Pension Plan (the Plan); cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension Plan 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 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service for Tier 1 and 5 years of service for PEPRA. 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 the Plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2020, are summarized as follows:

| | Miscellaneous | | |
|--|------------------|------------------|------------------|
| | Tier 1 | Tier 2 | PEPRA |
| Benefit formula | 2.5% @ 55 | 2% @ 60 | 2% @ 62 |
| Benefit vesting schedule | 5 Years | 5 Years | 5 Years |
| Benefit payments | Monthly for Life | Monthly for Life | Monthly for Life |
| Retirement age | 55 | 60 | 62 |
| Monthly benefits as a % of eligible compensation | 2.50% | 2.0% to 2.5% | 2.00% |
| Required employee contribution rates | 8.000% | 8.000% | 6.750% |
| Required employer contribution rates | 11.742% | 8.794% | 7.732% |

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

Employees Covered - At June 30, 2020, the following employees were covered by the benefit terms for the Plan:

| | <u>Miscellaneous</u> |
|-------------|----------------------|
| Active | 29 |
| Transferred | 8 |
| Separated | 10 |
| Retired | 23 |
| Total | 70 |

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 the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rates are 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, 2020, the District's contributions were as follows:

| | <u>Miscellaneous</u> |
|--------------------------|----------------------|
| Contributions - employer | \$ 295,459 |
| Contributions - employee | 238,549 |
| Total | \$ 534,008 |

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

As of June 30, 2020, the District reported net pension liabilities for its proportionate shares of the net pension liability of \$5,494,504. The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan are measured as of June 30, 2019, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 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 Plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2019 and 2020 was as follows:

| | <u>Miscellaneous</u> |
|------------------------------|----------------------|
| Proportion - June 30, 2019 | 0.13412% |
| Proportion - June 30, 2020 | 0.13721% |
| Change - Increase/(Decrease) | 0.00308% |

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

For the year ended June 30, 2020, the District recognized pension expense of \$999,696.

At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Changes of Assumptions | \$ 262,003 | \$ 92,878 |
| Differences between Expected and Actual Experience | 381,616 | 29,568 |
| Differences between Projected and Actual Investment Earnings | - | 96,061 |
| Differences between Employer's Contributions and Proportionate Share of Contributions | - | 315,887 |
| Change in Employer's Proportion | 93,756 | 31,108 |
| Pension Contributions Made Subsequent to Measurement Date | 295,459 | - |
| Total | \$ 1,032,834 | \$ 565,502 |

The District reported \$295,459 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ending June 30: | Deferred Outflows/ (Inflows) of Resources |
|--|--|
| 2021 | \$ 293,246 |
| 2022 | (140,250) |
| 2023 | (532) |
| 2024 | 19,411 |
| 2025 | - |
| Thereafter | - |
| Total | \$ 171,875 |

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

Actuarial Assumptions - The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

| | |
|-------------------------------|------------------------------------|
| Valuation Date | June 30, 2018 |
| Measurement Date | June 30, 2019 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.50% |
| Payroll Growth | 2.75% |
| Projected Salary Increase | (1) |
| Investment Rate of Return | 7.15% (2) |
| Mortality | (3) |

- (1) Varies by entry age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the 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 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 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. 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 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. 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.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

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 rates of return are net of administrative expenses.

| <u>Asset Class (a)</u> | <u>Assumed Asset Allocation</u> | <u>Real Return Years 1 - 10 (b)</u> | <u>Real Return Years 11+ (c)</u> |
|------------------------|---|---|--------------------------------------|
| Global Equity | 50.00% | 4.80% | 5.98% |
| Fixed Income | 28.00% | 1.00% | 2.62% |
| Inflation Sensitive | 0.00% | 0.77% | 1.81% |
| Private Equity | 8.00% | 6.30% | 7.23% |
| Real Estate | 13.00% | 3.75% | 4.93% |
| Liquidity | 1.00% | 0.00% | -0.92% |
| Total | <u>100.00%</u> | | |

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

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 the Plan, calculated using the discount rate for the 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:

| | <u>Miscellaneous</u> |
|-----------------------|----------------------|
| 1% Decrease | 6.15% |
| Net Pension Liability | \$ 8,234,182 |
| Current | 7.15% |
| Net Pension Liability | \$ 5,494,504 |
| 1% Increase | 8.15% |
| Net Pension Liability | \$ 3,233,094 |

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

West Bay Sanitary District
Notes to Financial Statements
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NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's single employer defined benefit postemployment healthcare plan provides health care benefits to eligible retirees in accordance with a Board resolution.

Benefits Provided

The District contributes toward post-retirement benefits for employees who retire under PERS after age 50 and choose coverage under CalPERS medical plans. The District pays the amount of the PEMHCA minimum contribution, which is \$133 per month and is expected to increase in future years. Payments are made for the lifetime of the retired employee and covered dependent spouse (or domestic partner), provided that they remain covered under CalPERS medical plans. Retirees are required to pay the balance of the monthly medical premiums. The District does not provide any other post-retirement health and welfare benefits.

The District contracts with CalPERS to administer its retiree health benefit plan. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. The District chooses among the menu of benefit provisions and adopts certain benefit provisions by Board resolution.

Employees Covered by Benefit Terms

At June 30, 2019 (the valuation date), the benefit terms covered the following employees:

| | |
|------------------------|------------------|
| Active employees | 26 |
| Inactive employees | <u>6</u> |
| Total employees | <u>32</u> |

Contributions

The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions during the year were \$5,120. Total contributions included in the measurement period were \$9,418. The actuarially determined contribution for the measurement period was \$16,607. The District's contributions were .14% of covered employee payroll during the fiscal year ended June 30, 2020. Employees are not required to contribute to the plan.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

Actuarial Assumptions

The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

| | |
|----------------------------------|--|
| Valuation Date: | June 30, 2019 |
| Measurement Date: | June 30, 2019 |
| Actuarial Cost Method: | Entry-Age Normal Cost Method |
| Amortization Period: | 20 years |
| Asset Valuation Method: | Level percentage of payroll, |
| Actuarial Assumptions: | |
| Discount Rate | 6.00% |
| Inflation | 2.75% |
| Payroll Increases | 3.00% |
| Healthcare Trend Rate | 5.00% |
| Investment Rate of Return | 6.00% |
| Mortality | 2014 CalPERS OPEB |
| Retirement | 2017 CalPERS OPEB Model for miscellaneous public employees with 2.5% at 55 |

Discount Rate

The projection of cash flows used to determine the discount rate assumed that the District contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to cover all future OPEB payments. Therefore, the discount rate was set to be equal to the long-term expected rate of return which was applied to all periods of projected benefit payments to determine the total OPEB liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Percentage of Portfolio | Long-Term Expected Rate of Return |
|--|------------------------------------|--|
| US Large Cap | 43.00% | 7.795% |
| US Small Cap | 23.00% | 7.795% |
| Long-Term Corporate Bonds | 12.00% | 5.290% |
| Long-Term Government Bonds | 6.00% | 4.500% |
| Treasury Inflation-Protected Securities (TIPS) | 5.00% | 7.795% |
| US Real Estate | 8.00% | 7.795% |
| All Commodities | 3.00% | 7.795% |
| Total | 100.00% | |

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2019 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 (valuation date) for the fiscal year ended June 30, 2020 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2020:

| Fiscal Year Ended June 30, 2020 (Measurement Date June 30, 2019) | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability (Asset) |
|---|---------------------------------|--|---|
| Balance at June 30, 2019 | \$ 303,194 | \$ 247,323 | \$ 55,871 |
| Service cost | 6,909 | - | 6,909 |
| Interest in Total OPEB Liability | 17,672 | - | 17,672 |
| Employer contributions | - | 9,418 | (9,418) |
| Balance of diff between actual and exp experience | 66,449 | 7,915 | 58,534 |
| Balance of changes in assumptions | (2,612) | - | (2,612) |
| Actual investment income | - | 15,717 | (15,717) |
| Benefit payments | (17,333) | (17,333) | - |
| Net changes | 71,085 | 15,717 | 55,368 |
| Balance at June 30, 2020 | \$ 374,279 | \$ 263,040 | \$ 111,239 |

| | |
|---|--------------|
| Covered Employee Payroll | \$ 3,697,419 |
| Total OPEB Liability as a % of Covered Employee Payroll | 10.12% |
| Plan Fid. Net Position as a % of Total OPEB Liability | 70.28% |
| Service Cost as a % of Covered Employee Payroll | 0.19% |
| Net OPEB Liability as a % of Covered Employee Payroll | 3.01% |

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

Deferred Inflows and Outflows of Resources

At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Difference between actual and expected experience | \$ 51,957 | \$ - |
| Difference between actual and expected earnings | - | 3,580 |
| Change in assumptions | - | 2,319 |
| OPEB contribution subsequent to measurement date | 5,120 | - |
| Totals | <u>\$ 57,077</u> | <u>\$ 5,899</u> |

Of the total amount reported as deferred outflows of resources related to OPEB, \$5,120 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended June 30, | |
|---------------------|------------------|
| 2021 | \$ 4,466 |
| 2022 | 4,467 |
| 2023 | 6,513 |
| 2024 | 6,107 |
| 2025 | 6,283 |
| Thereafter | 18,222 |
| Total | <u>\$ 46,058</u> |

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2020:

| | |
|---|------------------|
| Service cost | \$ 6,909 |
| Interest in TOL | 17,672 |
| Expected investment income | (14,839) |
| Difference between actual and expected experience | 6,577 |
| Difference between actual and expected earnings | (1,818) |
| Change in assumptions | (293) |
| OPEB Expense | <u>\$ 14,208</u> |

West Bay Sanitary District
Notes to Financial Statements
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The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2020:

| | |
|---|-------------------------|
| Net OPEB liability ending | \$ 111,239 |
| Net OPEB liability beginning | <u>(55,871)</u> |
| Change in net OPEB liability | 55,368 |
| Changes in deferred outflows | 1,379 |
| Changes in deferred inflows | (51,957) |
| Employer contributions and implicit subsidy | <u>9,418</u> |
| OPEB Expense | <u>\$ 14,208</u> |

Sensitivity to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

| | Discount Rate | | |
|----------------------------|----------------|------------|----------------|
| | (1% Decrease) | 6.00% | (1% Increase) |
| Net OPEB Liability (Asset) | \$ 164,633 | \$ 111,239 | \$ 67,919 |

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

| | Trend Rate | | |
|----------------------------|----------------|------------|----------------|
| | (1% Decrease) | 5.00% | (1% Increase) |
| Net OPEB Liability (Asset) | \$ 69,273 | \$ 111,239 | \$ 163,059 |

NOTE 12 - SHARON HEIGHTS GOLF AND COUNTRY CLUB COST SHARING PLAN

The West Bay Sanitary District has an agreement with Sharon Heights Golf and Country Club (Club) to contribute toward the cost of the Facilities plan and the full cost incurred thereafter for the planning, design environmental review, permitting, construction and operation of a recycled water treatment facility on Club property. West Bay has received a grant easement in perpetuity for the location of the recycled water treatment facility and West Bay has ownership of the treatment facility and all the recycled water, with the Club's right to receive recycled water.

West Bay received approval for a California Clean Water State Revolving Fund loan to Design/Build a recycled water treatment facility. The parties have a long-term agreement that establishes the terms and conditions of loan payments, easements, ownership of the facility, design criteria, and terms of operation and maintenance.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2020

Through June 30, 2020, total costs for the designed-build phase were as follows:

| Description | Design/Build Phase |
|----------------------|-----------------------|
| Procurement | \$ 18,882 |
| Project Management | 1,460,876 |
| Legal | 58,903 |
| Water Sampling | 63,744 |
| Audit Fees | 9,750 |
| Civil Engineers | 195,309 |
| Inspection | 20,230 |
| General Construction | 20,483,139 |
| PG&E | 74,681 |
| Total | <u>\$ 22,385,514</u> |

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Litigation

The District may be at risk to be a defendant in certain lawsuits which arise in the normal course of business. District management is of the opinion that the ultimate outcome of such matters will not have a significant effect on the financial position of the District.

Construction Related Contracts

The District was obligated to pay three contractors \$1,069,799 from contracts totaling \$7,625,623 as of June 30, 2020.

NOTE 14 - PRIOR PERIOD ADJUSTMENTS

The District reduced beginning net position by \$1,443,710 which included a decrease to capital assets of \$4,152,375 mostly related to depreciation adjustments, expense adjustments, and a decrease to the SVCW's SRF loan payable of \$2,708,665 to record amounts converted to grants.

REQUIRED SUPPLEMENTARY INFORMATION

West Bay Sanitary District
Schedule of Pension Contributions - CalPERS
June 30, 2020

| Miscellaneous Plan | | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Plan Measurement Date | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Fiscal Year Ended | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Contractually Required Contributions | \$ 368,713 | \$ 399,280 | \$ 387,500 | \$ 413,896 | \$ 297,313 | \$ 295,459 |
| Contributions in Relation to Contractually Required Contributions | 368,713 | 399,280 | 387,500 | 413,896 | 297,313 | 295,459 |
| Contribution Deficiency (Excess) | - | - | - | \$ - | \$ - | \$ - |
| Covered Payroll | \$ 2,411,343 | \$ 2,544,628 | \$ 2,799,216 | \$ 2,795,654 | \$ 2,806,611 | \$ 3,264,521 |
| Contributions as a % of Covered Payroll | 15.29% | 15.69% | 13.84% | 14.80% | 10.59% | 9.05% |

Notes to Schedule:

Valuation Date: June 30, 2018

Assumptions Used: Entry Age Method used for Actuarial Cost Method

Level Percentage of Payroll and Direct Rate Smoothing

4 Years Remaining Amortization Period

Inflation Assumed at 2.5%

Investment Rate of Returns set at 7.15%

CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of

Fiscal year 2015 was the first year of implementation, therefore only six years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in the District's fiscal year 2016 and then decreased from 7.65% to 7.15% in the District's fiscal year 2018.

The CalPERS inflation assumption was decreased from 2.75% to 2.50% during the District's fiscal year 2019.

The CalPERS mortality assumptions was adjusted in the District's fiscal year 2019.

West Bay Sanitary District
Schedule of Proportionate Share of Net Pension Liability
June 30, 2020

| Miscellaneous and Safety Plan | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Plan Measurement Date | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Fiscal Year Ended | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Proportion of Net Pension Liability | 0.10822% | 0.12849% | 0.12750% | 0.12991% | 0.12991% | 0.13721% |
| Proportionate Share of Net Pension Liability | \$ 2,674,755 | \$ 3,524,991 | \$ 4,429,092 | \$ 5,120,961 | \$ 5,054,719 | \$ 5,494,504 |
| Covered Payroll | \$ 2,339,003 | \$ 2,411,343 | \$ 2,544,628 | \$ 2,799,216 | \$ 2,795,654 | \$ 2,806,611 |
| Proportionate Share of NPL as a % of Covered Payroll | 114.35% | 146.18% | 174.06% | 182.94% | 180.81% | 195.77% |
| Plan's Fiduciary Net Position as a % of the TPL | 81.15% | 78.29% | 73.58% | 72.32% | 73.42% | 73.03% |

Fiscal year 2015 was the first year of implementation, therefore only six years are shown.
The CalPERS discount rate was increased from 7.5% to 7.65% in the District's fiscal year 2016 and then decreased from 7.65% to 7.15% in the District's fiscal year 2018.
The CalPERS inflation assumption was decreased from 2.75% to 2.50% during the District's fiscal year 2019.
The CalPERS mortality assumptions was adjusted in the District's fiscal year 2019.

West Bay Sanitary District
Schedule of OPEB Contributions
June 30, 2020

| | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|---|-----------------|-----------------|------------------|
| Actuarially determined contribution (ADC) | \$ 11,604 | \$ 11,579 | \$ 16,607 |
| Less: actual contribution in relation to ADC | (7,860) | (9,418) | (5,120) |
| Contribution deficiency (excess) | <u>\$ 3,744</u> | <u>\$ 2,161</u> | <u>\$ 11,487</u> |
| | | | |
| Covered employee payroll | \$ 2,795,654 | \$ 2,806,611 | \$ 3,697,419 |
| Contributions as a percentage of covered employee payroll | 0.28% | 0.34% | 0.14% |

Notes to Schedule:

Assumptions and Methods

| | |
|---------------------------|---|
| Valuation Date: | June 30, 2019 |
| Measurement Date: | June 30, 2019 |
| Actuarial Cost Method | Entry-Age Normal |
| Amortization Period | 20 years |
| Asset Valuation Method | Level percentage of payroll, closed |
| Actuarial Assumptions: | |
| Discount Rate | 6.00% |
| Inflation | 2.50% |
| Payroll Increases | 3.00% |
| Investment Rate of Return | 6.75%, Net of OPEB plan investment expenses, including inflation |
| Mortality | 6.75%, Net of OPEB plan investment expenses, including inflation |
| Service Requirement | 2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous" |

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

No change in benefit terms and discount rates.

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Contributions were not based on a measure of pay.

West Bay Sanitary District
Schedule of Net OPEB Liability
June 30, 2020

| Total OPEB liability | 2018 | 2019 | 2020 |
|---|-------------------|-------------------|-------------------|
| Service cost | \$ 6,513 | \$ 6,708 | \$ 6,909 |
| Interest | 16,476 | 17,188 | 17,672 |
| Differences between expected and actual experience | - | - | 66,449 |
| Changes of assumptions | - | - | (2,612) |
| Benefit payments | (7,909) | (14,335) | (17,333) |
| Net change in Total OPEB Liability | 15,080 | 9,561 | 71,085 |
| Total OPEB Liability - beginning | 278,553 | 293,633 | 303,194 |
| Total OPEB Liability - ending | <u>\$ 293,633</u> | <u>\$ 303,194</u> | <u>\$ 374,279</u> |
| | | | |
| Plan fiduciary net position | | | |
| Employer contributions | \$ 232,909 | \$ 14,335 | \$ 17,333 |
| Net investment income | 10,234 | 12,089 | 15,717 |
| Benefit payments | (7,909) | (14,335) | (17,333) |
| Net change in plan fiduciary net position | 235,234 | 12,089 | 15,717 |
| Plan fiduciary net position - beginning | - | 235,234 | 247,323 |
| Plan fiduciary net position - ending | <u>\$ 235,234</u> | <u>\$ 247,323</u> | <u>\$ 263,040</u> |
| | | | |
| Net OPEB liability | \$ 58,399 | \$ 55,871 | \$ 111,239 |
| | | | |
| Plan fiduciary net position as a percentage of the total OPEB liability | 80.11% | 81.57% | 70.28% |
| | | | |
| Covered employee payroll | \$ 2,799,216 | \$ 2,795,654 | \$ 2,806,611 |
| | | | |
| Net OPEB Liability as a percentage of covered payroll | 2.09% | 2.00% | 3.96% |
| | | | |
| Total OPEB Liability as a percentage of covered payroll | 10.49% | 10.85% | 13.34% |

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

No change in benefit terms and discount rates.

Actuarially determined contribution rates are calculated as of June 30, two years prior to

Contributions were not based on a measure of pay.

SUPPLEMENTARY INFORMATION

West Bay Sanitary District
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2020

| | Budget Amounts | Actual (GAAP Basis) | Variance |
|---|-----------------------|------------------------|----------------------|
| Operating Revenues: | | | |
| Service charges | \$ 30,561,915 | \$ 30,003,748 | \$ (558,167) |
| Flow equalization uses | 351,138 | 351,138 | - |
| Permit and inspection fees and other services | 100,000 | 148,144 | 48,144 |
| Other operating revenues | 435,000 | 528,977 | 93,977 |
| Total operating revenues | <u>31,448,053</u> | <u>31,032,007</u> | <u>(416,046)</u> |
| Operating Expenses: | | | |
| Sewage treatment plant (SVCW) | 20,428,360 | 19,551,978 | 876,382 |
| Sewage collection and general administration: | | | |
| Salaries and benefits | 6,280,829 | 5,894,953 | 385,876 |
| Materials and supplies | 468,595 | 446,835 | 21,760 |
| Insurance | 114,000 | 131,737 | (17,737) |
| Contract services | 463,500 | 388,061 | 75,439 |
| Professional services | 545,220 | 306,237 | 238,983 |
| Repairs and maintenance | 287,000 | 271,062 | 15,938 |
| Utilities | 183,250 | 145,849 | 37,401 |
| Other operating expenses | 370,150 | 1,002,564 | (632,414) |
| Total sewage collection and general administration | <u>8,712,544</u> | <u>8,587,298</u> | <u>125,246</u> |
| Depreciation | 2,500,000 | 2,043,269 | 456,731 |
| Total operating expenses | <u>31,640,904</u> | <u>30,182,545</u> | <u>1,458,359</u> |
| Operating Income (Loss) | <u>(192,851)</u> | <u>849,462</u> | <u>1,042,313</u> |
| Nonoperating Revenues (Expenses): | | | |
| Investment income | 125,000 | 1,147,848 | 1,022,848 |
| Interest expense | - | (146,255) | (146,255) |
| Increase (decrease) of equity in Silicon Valley Clean Water | - | 8,506,285 | 8,506,285 |
| SRF grant reimbursements | - | 2,551,135 | 2,551,135 |
| Other nonoperating expenses | (6,000) | - | 6,000 |
| Other nonoperating revenues | 179,000 | 368,361 | 189,361 |
| Total nonoperating revenues (expenses) | <u>298,000</u> | <u>12,427,374</u> | <u>12,129,374</u> |
| Income before contributions | 105,149 | 13,276,836 | 13,171,687 |
| Capital Contributions | <u>-</u> | <u>572,970</u> | <u>572,970</u> |
| Change in Net Position | 105,149 | 13,849,806 | 13,744,657 |
| Prior Period Adjustments | - | (1,443,710) | (1,443,710) |
| Beginning Net Position | 123,463,709 | 123,463,709 | - |
| Ending Net Position | <u>\$ 123,568,858</u> | <u>\$ 135,869,805</u> | <u>\$ 12,300,947</u> |

West Bay Sanitary District
 Connection Fee Schedule (Unaudited)
 For the Fiscal Year Ended June 30, 2020

Summary of Connection Fee Revenue and Expenditures:

| | |
|---|----------------|
| Connection Fee Revenue | \$ 572,970 |
| Allocated Interest on Connection Fee Revenue | 3,438 |
| Total Connection Fees and Interest Available for 2018-19 | 576,408 |

Capacity Project Expenditures
 Capital Asset Fund, Applied to Deficit

| | |
|--|-------------|
| | (1,705,408) |
| | 1,129,000 |

Beginning Balance Available, July 1, 2019

| | |
|--|---|
| | - |
|--|---|

Ending Balance Available, June 30, 2020

| | |
|--|------|
| | \$ - |
|--|------|

Capacity Project Expenditures - Description:

| | Total Expenditures | Connection Allocation | Connection Target | Interest | Capital Asset Fund |
|---|---------------------|-----------------------|-------------------|---------------------|--------------------|
| | Amount | Amount | Percent | Amount | Percent |
| FLOW MONITORING STUDY | \$ 29,986 | \$ 29,986 | 100% | \$ 30,047 | 100% |
| LEEVE SURVEY & GPS UPDATE | 44,488 | 22,244 | 50% | 22,289 | 50% |
| SEWER SYSTEM MODELING | - | - | 100% | - | - |
| FLOW METERS | - | - | 100% | - | - |
| SMART COVERS | 9,983 | 4,991 | 50% | 5,001 | 50% |
| PUMP & VALVE REPLACEMENT PROGRAM | 48,496 | - | TBD | - | - |
| PRIVATE PUMP & PANEL REPLACEMENTS | 17,691 | - | 0% | - | - |
| Pipeline Replacement & Rehab Engineering: | | | | | |
| ISABELLA, GILBERT & BAY NORTH | 213,804 | 181,733 | 85% | 182,100 | 85% |
| Pipeline Replacement & Rehab Construction: | | | | | |
| BELLE HAVEN III, MARSH RD, & STOWE LN PS | 1,203,914 | 1,023,327 | 85% | 1,025,394 | 85% |
| EMERGENCY REPAIR ALPINE ROAD | 517,280 | 439,688 | 85% | 440,576 | 85% |
| Total Capacity Project Expenditures | \$ 2,085,642 | \$ 1,701,970 | | \$ 1,705,408 | 82% |

| | Amount | Percent | Amount | Percent |
|--|-------------------|---------|-------------------|---------|
| | 22,199 | 50% | (61) | 50% |
| | - | | - | |
| | - | | - | |
| | 4,981 | | 48,496 | |
| | 17,691 | | 17,691 | |
| | 31,704 | | 31,704 | |
| | 178,520 | | 178,520 | |
| | 76,704 | | 76,704 | |
| | \$ 380,234 | | \$ 380,234 | |

Ending Balance, June 30, 2020 - Based on Connection Target Allocation

| | |
|--|--------------|
| | \$ 1,129,000 |
|--|--------------|

Notes:

(1) Target connection fee allocation not met due to lack of connection fees available. Deficits are covered by the Capital Asset Fund.

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
West Bay Sanitary District
Menlo Park, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of of West Bay Sanitary District (the “District”) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated November 18, 2020.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and



material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

November 18, 2020
San Jose, California