

WEST BAY SANITARY DISTRICT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2014

* * *



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West Bay Sanitary District

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June 30, 2014

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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 business-type activities of the West Bay Sanitary District (the "District"), as of and for the year ended June 30, 2014, 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 business-type activities of the West Bay Sanitary District, as of June 30, 2014, 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 and schedule of funding progress for the retiree health benefit plan, 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014 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

September 12, 2014
San Jose, California

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

The West Bay Sanitary District (the District) has issued its financial statements for the fiscal year ended June 30, 2014, 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 \$6,021,593 or 8.3%.
- The District's operating revenue increased by \$1,527,297 or 8.5%.
- The District's operating expenses increased by \$675,736 or 5.2%.

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 private sector companies. 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

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of the year's activities?" 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 will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure 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 deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

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 | | | | |
|--|----------------------|----------------------|---------------------|-------------------|
| | 2014 | 2013 | Dollar Change | Percent Change |
| Assets | | | | |
| Current Assets | \$ 20,126,813 | \$ 13,977,214 | \$ 6,149,599 | 44.0% |
| Noncurrent Assets | 60,676,715 | 60,913,365 | (236,650) | -0.4% |
| Total Assets | \$ 80,803,528 | \$ 74,890,579 | \$ 5,912,949 | 7.9% |
| Liabilities | | | | |
| Current Liabilities | \$ 1,971,155 | \$ 2,112,462 | \$ (141,307) | -6.7% |
| Noncurrent Liabilities | 203,207 | 170,544 | 32,663 | 19.2% |
| Total Liabilities | \$ 2,174,362 | \$ 2,283,006 | \$ (108,644) | -4.8% |
| Net Position | | | | |
| Net Investment in Capital Assets | \$ 38,019,553 | \$ 38,066,320 | \$ (46,767) | -0.1% |
| Unrestricted | 40,609,613 | 34,541,253 | 6,068,360 | 17.6% |
| Total Net Position | \$ 78,629,166 | \$ 72,607,573 | \$ 6,021,593 | 8.3% |

As seen above, the District's total net position increased by \$6,021,593, or 8.3%, from fiscal year 2012-13 to 2013-14. The District's total current assets, which do not include capital assets, increased by \$6,149,599. Whereas, Noncurrent Assets decreased by \$236,650 due to capital spending net the loss from investment in SVCW. Total Liabilities decreased by \$108,644.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

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

| Table 2 - Change in Net Position | | | | |
|--|---------------------|---------------------|---------------------|-------------------|
| | 2014 | 2013 | Dollar Change | Percent Change |
| Revenues | | | | |
| Operating Revenue | \$ 19,517,078 | \$ 17,989,781 | \$ 1,527,297 | 8.5% |
| Operating Expenses | | | | |
| Sewage treatment | 7,179,182 | 6,679,537 | 499,645 | 7.5% |
| Sewage collection and general administration | 5,340,202 | 5,307,520 | 32,682 | 0.6% |
| Depreciation | 1,275,444 | 1,132,035 | 143,409 | 12.7% |
| Total Operating Expenses | 13,794,828 | 13,119,092 | 675,736 | 5.2% |
| Operating Income (Loss) | 5,722,250 | 4,870,689 | 851,561 | 17.5% |
| Nonoperating Revenue (Expense) | 181,922 | 237,066 | (55,144) | -23.3% |
| Increase (decrease) of equity in SVCW | (50,349) | (589,816) | 539,467 | -91.5% |
| Connection Fees | 167,770 | 241,096 | (73,326) | -30.4% |
| Change in Net Position | \$ 6,021,593 | \$ 4,759,035 | \$ 1,262,558 | 26.5% |

While the Statement of Net Position shows the change in financial position, the Statement of Activities and Changes in Net Position (Table 2 above) provides answers as to the nature and sources of the changes. Net position increased by \$6,021,593. This resulted from an increase in total revenues of \$1,527,297 (8.5%) over the prior year due primarily to a 9% increase in sewer service fees. Total operating expenses increased \$675,736, or 5.2% over the prior year.

Sewage treatment increased by 7.5% from prior year. Sewage treatment is provided by Silicon Valley Clean Water, 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, 2014, the District's share is approximately 24%. The cost of sewage treatment increased significantly in FY2013-14 as a result of new SVCW bond and debt service for capital improvements. For FY2013-14 the District's share of SVCW bond and debt service totaled \$1,579,271 which was an increase of almost \$454,315 from the prior year.

Going forward it is anticipated that SVCW related sewage treatment expenses will rise substantially as their debt increases, whereas sewage collection and general administration expenses are expected to remain stable and generally reflect CPI increases.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

BUDGETARY HIGHLIGHTS

The District adopts an annual budget which provides for the general operations. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for capital projects. The Capital Improvement Program provides an annual forecast of capital requirements. Table 3 shows a comparison of actual to budget for general operations for the year ended June 30, 2014.

| Table 3 - Budget Summary | | | | |
|--|---------------------|---------------------|---------------------|---------------------|
| | Budget | Actual | Variance | Percent Variance |
| Revenues | | | | |
| Operating Revenue | \$ 19,299,600 | \$ 19,517,078 | \$ 217,478 | 1.1% |
| Operating Expenses | | | | |
| Sewage treatment | 8,775,914 | 7,179,182 | 1,596,732 | 22.2% |
| Sewage collection and general administration | 5,905,817 | 5,340,202 | 565,615 | 10.6% |
| Depreciation | 1,200,000 | 1,275,444 | (75,444) | -5.9% |
| Total Operating Expenses | 15,881,731 | 13,794,828 | 2,086,903 | 15.1% |
| Operating Income (Loss) | 3,417,869 | 5,722,250 | 2,304,381 | 67.4% |
| Nonoperating Revenue | 186,000 | 181,922 | (4,078) | -2.2% |
| Increase (decrease) of equity in SVCW | - | (50,349) | (50,349) | 100.0% |
| Connection Fees | 50,000 | 167,770 | 117,770 | 235.5% |
| Change in Net Position | \$ 3,653,869 | \$ 6,021,593 | \$ 2,367,724 | 64.8% |

The District reported \$217,478 more in operating revenue than budgeted primarily resulting from higher sewer service fees collected. Total operating expenses were \$2,086,903 less than budgeted primarily due to the timing of payments made for SVCW bond and loan debt.

Table 4 summarizes the capital budget for the fiscal year ended June 30, 2014:

| Table 4 - Capital Fund Budget Summary | | | | |
|--|--------------|---------------|--------------|---------------------|
| | Budget | Actual | Variance | Percent Variance |
| Transfer from Operations | \$ 4,593,869 | \$ 7,040,832 | \$ 2,446,963 | 53% |
| Capital Expenditures | (4,972,500) | (1,230,351) | 3,742,149 | 304% |
| Connection Charges | 50,000 | 167,770 | 117,770 | 236% |
| Interest Income | 120,000 | 105,527 | (14,473) | -12% |
| Capital Projects Reserve | (350,000) | (350,000) | - | 0% |
| Emergency Capital Fund | (350,000) | (350,000) | - | 0% |
| Change in capital Asset Fund | (908,631) | 5,383,778 | 6,292,409 | 693% |
| Beginning Fund Balance | 4,757,020 | 7,960,453 | 3,203,433 | 67% |
| Ending Fund Balance | \$ 3,848,389 | \$ 13,344,231 | \$ 9,495,842 | 247% |

Actual Capital Expenditures of \$1,230,351 to replace and rehabilitate old sewer pipeline were \$3,742,149 less than budgeted and \$2,338,929 less than the prior fiscal year. The District also set aside \$350,000 for emergency capital repairs and \$350,000 for future capital projects, with plans to build the fund gradually over the next several years. As a result of favorable variances in total revenue and total expenses to budget, the District was able to transfer approximately \$2.45 million more to the Capital Asset Fund at year end which contributed to an ending Fund balance that is \$9.4 million higher than anticipated.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2014

CAPITAL ASSETS

Table 5 shows a summary of capital assets owned by the District as of June 30, 2014.

| Table 5 - Summary of Capital Assets Net of Depreciation | | | | |
|--|--------------|--------------|---------------|----------------|
| Capital Asset | 2014 | 2013 | Dollar Change | Percent Change |
| Land | \$ 44,467 | \$ 44,467 | \$ - | 0.00% |
| Construction in Progress | 1,042,501 | 3,457,350 | (2,414,849) | -69.85% |
| Pump stations | 3,193,701 | 3,247,600 | (53,899) | -1.66% |
| Fleet | 940,631 | 745,809 | 194,822 | 26.12% |
| Plant and administration facilities | 208,731 | 260,065 | (51,334) | -19.74% |
| Buildings | 2,112,379 | 2,189,288 | (76,909) | -3.51% |
| Flow equalization facilities | 818,233 | 908,417 | (90,184) | -9.93% |
| Subsurface lines | 29,658,910 | 27,213,324 | 2,445,586 | 8.99% |
| Net Capital Assets | \$38,019,553 | \$38,066,320 | \$ (46,767) | -0.12% |

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 such as increases or declines in property tax values or other types of revenues 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. As in previous years, the District has maintained operating costs by carefully managing every expense.

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 money it receives. If you have any questions about this, or any other matter related to the District, please contact the District at 500 Laurel Street, Menlo Park, CA 94025 or (650) 321-0384.

BASIC FINANCIAL STATEMENTS

West Bay Sanitary District
Statement of Net Position
June 30, 2014
(With Comparative Totals as of June 30, 2013)

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 19,663,174 | \$ 13,297,447 |
| Accounts receivable | 388,250 | 609,553 |
| Interest receivable | 41,084 | 37,633 |
| Prepaid expenses and other current assets | 34,305 | 32,581 |
| Total Current Assets | <u>20,126,813</u> | <u>13,977,214</u> |
| Noncurrent Assets: | | |
| Investments | 4,850,801 | 4,990,335 |
| Investment in Silicon Valley Clean Water | 17,806,361 | 17,856,710 |
| Capital assets: | | |
| Non-depreciable | 1,086,968 | 3,501,817 |
| Depreciable net of accumulated depreciation | 36,932,585 | 34,564,503 |
| Total Capital Assets - Net | <u>38,019,553</u> | <u>38,066,320</u> |
| Total Noncurrent Assets - Net | <u>60,676,715</u> | <u>60,913,365</u> |
| Total Assets | <u>\$ 80,803,528</u> | <u>\$ 74,890,579</u> |
| Liabilities | | |
| Current Liabilities: | | |
| Accounts payable | \$ 1,684,370 | \$ 1,822,658 |
| Payroll and related liabilities | 8,097 | 4,452 |
| Construction deposits | 115,455 | 115,455 |
| Compensated absences payable - current | 163,233 | 169,897 |
| Total Current Liabilities | <u>1,971,155</u> | <u>2,112,462</u> |
| Noncurrent Liabilities: | | |
| Net OPEB obligation | 77,659 | 57,571 |
| Compensated absences payable - noncurrent | 125,548 | 112,973 |
| Total Noncurrent Liabilities | <u>203,207</u> | <u>170,544</u> |
| Total Liabilities | <u>\$ 2,174,362</u> | <u>\$ 2,283,006</u> |
| Net Position | | |
| Net Investment in Capital Assets | \$ 38,019,553 | \$ 38,066,320 |
| Unrestricted | 40,609,613 | 34,541,253 |
| Total Net Position | <u>\$ 78,629,166</u> | <u>\$ 72,607,573</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, 2014
(With Comparative Totals for the Fiscal Year Ended June 30, 2013)

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Operating Revenues: | | |
| Service charges | \$ 19,297,689 | \$ 17,790,248 |
| Flow equalization uses | 47,916 | 47,916 |
| Permit and inspection fees and other services | 73,217 | 66,494 |
| Other operating revenues | 98,256 | 85,123 |
| Total operating revenues | <u>19,517,078</u> | <u>17,989,781</u> |
| Operating Expenses: | | |
| Sewage treatment | 7,179,182 | 6,679,537 |
| Sewage collection and general administration: | | |
| Salaries and benefits | 3,891,057 | 3,714,067 |
| Materials and supplies | 329,754 | 397,048 |
| Insurance | 74,594 | 67,081 |
| Contract services | 261,129 | 291,449 |
| Professional services | 234,917 | 247,960 |
| Repairs and maintenance | 217,753 | 220,902 |
| Utilities | 118,175 | 121,299 |
| Other operating expenses | 212,823 | 247,714 |
| Total sewage collection and general administration | <u>5,340,202</u> | <u>5,307,520</u> |
| Depreciation | 1,275,444 | 1,132,035 |
| Total operating expenses | <u>13,794,828</u> | <u>13,119,092</u> |
| Operating Income (Loss) | <u>5,722,250</u> | <u>4,870,689</u> |
| Nonoperating Revenues (Expenses): | | |
| Investment income | 163,222 | 224,231 |
| Increase (decrease) of equity in Silicon Valley Clean Water | (50,349) | (589,816) |
| Other nonoperating revenues | 18,700 | 12,835 |
| Total nonoperating revenues (expenses) | <u>131,573</u> | <u>(352,750)</u> |
| Income before contributions | <u>5,853,823</u> | <u>4,517,939</u> |
| Capital Contributions and Special Items: | | |
| Capital contributions - connection fees | 167,770 | 241,096 |
| Total contributions and special items | <u>167,770</u> | <u>241,096</u> |
| Change in NetPosition | 6,021,593 | 4,759,035 |
| Beginning Net Position | <u>72,607,573</u> | <u>67,848,538</u> |
| Ending Net Position | <u>\$ 78,629,166</u> | <u>\$ 72,607,573</u> |

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, 2014
(With Comparative Totals for the Fiscal Year Ended June 30, 2013)

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Cash received from customers | \$ 19,738,381 | \$ 17,791,817 |
| Cash payments to suppliers for goods and services | (8,768,339) | (7,506,037) |
| Cash payments to employees for services | (2,709,031) | (2,564,281) |
| Cash payments of benefits on behalf of employees | (1,152,382) | (1,125,971) |
| Net Cash Provided (Used) by Operating Activities | <u>7,108,629</u> | <u>6,595,528</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Cash received from connection fees | 167,770 | 241,096 |
| Cash received on the sale of capital assets | - | 7,565 |
| Purchases and construction of capital assets | (1,228,677) | (3,576,846) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(1,060,907)</u> | <u>(3,328,185)</u> |
| Cash Flows from Investing Activities: | | |
| Sales and redemption of investments | 139,534 | 55,825 |
| Investment income | 159,771 | 211,406 |
| Other income (expense) | 18,700 | 12,835 |
| Net Cash Provided (Used) by Investing Activities | <u>318,005</u> | <u>280,066</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 6,365,727 | 3,547,409 |
| Cash and Cash Equivalents Beginning | <u>13,297,447</u> | <u>9,750,038</u> |
| Cash and Cash Equivalents Ending | <u>\$ 19,663,174</u> | <u>\$ 13,297,447</u> |
| Reconciliation of Operating Income to Cash Flows Provided by Operating Activities: | | |
| Operating Income (Loss) | \$ 5,722,250 | \$ 4,870,689 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 1,275,444 | 1,132,035 |
| Net change in: | | |
| Accounts receivable | 221,303 | (197,964) |
| Prepaid expenses and other current assets | (1,724) | 7,751 |
| Accounts payable | (138,288) | 759,202 |
| Payroll and related liabilities | 3,645 | 1,688 |
| Net OPEB obligation | 20,088 | 20,214 |
| Compensated absences | 5,911 | 1,913 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 7,108,629</u> | <u>\$ 6,595,528</u> |

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

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

NOTE 1 - NATURE OF ORGANIZATION

West Bay Sanitary District (District) is a political subdivision of the State of California, 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 other organizations 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 important 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 outflow 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 inflow 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 *GASBS No. 62, Codification of Accounting*

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

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
- 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.

Service Charges

Service charges are billed and collected on the District's behalf by the County of San Mateo in

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conjunction with the County's annual property tax billings. The majority of revenues are collected through the County system with only small amounts billed directly by the 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.

Investments are reported in the statement of net position at fair value. Changes in fair market value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

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.

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, 2014.

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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 | 10-30 years |
| Flow equalization facilities | 10-30 years |
| Subsurface lines | 10-50 years |

Compensated Absences

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

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.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Upcoming New Accounting Pronouncements

Summary of Statement No. 68 Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (Issued 06/12). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support

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for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The determination of the impact on the District's financial statements from the implementation of this standard is pending as of the issuance date of this report.

NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The District's cash, cash equivalents and investments consisted of the following as of June 30, 2014 and 2013:

| Cash, Cash Equivalents and Investments | Fair Value | | | Investment Rating |
|---|----------------------|----------------------|---------------------|-------------------|
| | 2014 | 2013 | Change | |
| Cash and Cash Equivalents: | | | | |
| Cash on hand and in banks | \$ 873,208 | \$ 381,286 | \$ 491,922 | N/A |
| Money market accounts | 17,277,347 | 11,645,542 | 5,631,805 | N/A |
| Bank of the West Investment Trust | 497,209 | 257,206 | 240,003 | See Page 17 |
| California Local Agency Investment Fund (L.A.I.F.) | 1,014,810 | 1,012,313 | 2,497 | Not Rated |
| Petty Cash | 600 | 1,100 | (500) | N/A |
| Total cash and cash equivalents | 19,663,174 | 13,297,447 | 6,365,727 | |
| Investments: | | | | |
| Bank of the West Investment Trust | 4,850,801 | 4,990,335 | (139,534) | See Page 17 |
| Total Investments | 4,850,801 | 4,990,335 | (139,534) | |
| Total Cash, Cash Equivalents and Investments | \$ 24,513,975 | \$ 18,287,782 | \$ 6,226,193 | |

Cash Deposits

As of June 30, 2014, the District's cash deposits exceeded the Federal Deposit Insurance Corporation ("FDIC") insured limits by \$672,000, but had little exposure since they were collateralized as noted in the *Collateral and Categorization Requirements* disclosure on page 17. Bank balances are insured up to \$250,000 per bank by FDIC.

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 ratifies the investments that have been made.

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The District's investment policy follows the California Government Code which authorizes the District to invest in the following:

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|-------------------------------------|---------------------|---------------------------------------|--|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Bankers' Acceptances | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base value | 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 | 5 years | 20% | None |
| County Pooled Investment Fund | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| JPA Pools (other investment pools) | N/A | None | None |

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 Agency 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, 2014, was approximately \$64.8 billion. The average maturity for the investment in LAIF was 280 days and the effective interest rate was .35%.

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.

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- *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 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 on page 17 for the District's limitations on the amount that can be invested in any one issuer.

The following schedule summarized the District's investment maturities and concentrations with Bank of the West as of June 30, 2014:

| Investment Type | Rating | Fair Value | Maturities | | | | Concentrations |
|------------------------------|------------|---------------------|---------------------|--------------------|--------------------|---------------------|----------------|
| | | | 12 Months or Less | 13 - 24 Months | 25 - 60 Months | More Than 60 Months | |
| Municipal Bonds | A-/A3 | \$ 273,598 | \$ - | \$ - | \$ 273,598 | \$ - | 1.16% |
| | AA-/A2 | 63,479 | - | 63,479 | - | - | 0.27% |
| | AA/AA3 | 36,822 | - | - | 36,822 | - | 0.16% |
| | AA+/AA2 | 131,014 | - | - | 131,014 | - | 0.55% |
| | BBB-/B1 | 53,580 | - | - | 53,580 | - | 0.23% |
| Subtotal Municipal Bonds | | 558,493 | - | 63,479 | 495,014 | - | 2.36% |
| Corporate Bonds | A/A2 | 50,044 | - | - | 50,044 | - | 0.21% |
| | A-/A2 | 27,297 | - | 27,297 | - | - | 0.12% |
| | A/A3 | 162,762 | 162,762 | - | - | - | 0.69% |
| | A-/A3 | 377,783 | - | - | 377,783 | - | 1.60% |
| | A/BAA1 | 267,733 | - | 267,733 | - | - | 1.13% |
| | A-/BAA1 | 797,784 | - | 698,402 | 99,382 | - | 3.37% |
| | A-/BAA2 | 552,240 | 250,100 | 250,515 | - | 51,625 | 2.34% |
| | A/NR | 122,788 | - | - | - | 122,788 | 0.52% |
| | A+/AA3 | 92,024 | - | - | 92,024 | - | 0.39% |
| | AA-/A2 | 99,460 | - | - | - | 99,460 | 0.42% |
| | AA-/AA2 | 33,278 | - | - | 33,278 | - | 0.14% |
| | BBB/BAA1 | 35,447 | - | - | 35,447 | - | 0.15% |
| | BBB/BAA2 | 254,978 | - | - | 254,978 | - | 1.08% |
| Subtotal Corporate Bonds | | 2,873,618 | 412,862 | 1,243,947 | 942,936 | 273,873 | 12.16% |
| US Agency Obligations | Govt | 1,915,899 | 84,347 | 301,346 | 888,784 | 641,422 | 8.10% |
| Total BOW Investments | AAA | 5,348,010 | 497,209 | 1,608,772 | 2,326,734 | 915,295 | 22.62% |
| Money Market | N/A | 17,277,347 | 17,277,347 | - | - | - | 73.08% |
| LAIF | N/A | 1,014,810 | 1,014,810 | - | - | - | 4.29% |
| Total Investments | | \$23,640,167 | \$18,789,366 | \$1,608,772 | \$2,326,734 | \$ 915,295 | 100.00% |

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NOTE 4 - INVESTMENT IN SILICON VALLEY CLEAN WATER

Silicon Valley Clean Water (SVCW), formerly the South Bayside System Authority, 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. At June 30, 2014 and 2013, the District had approximately 24% equity interest in SVCW, which is reported using the equity method of accounting. The District's investment in SVCW at June 30, 2014 and 2013 was \$17,806,361 and \$17,856,710, respectively, as reflected on the statement of net position. The change in the investment for the years ended June 30, 2014 and 2013 was a decrease of \$50,349 and a decrease of \$589,819, respectively, as reflected in the statement of revenues, expenses and changes in net position. 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, 2014, (most recent information available):

| | June 30, 2014 |
|--------------------|----------------|
| Total Assets | \$ 230,094,531 |
| Total Liabilities | 155,718,113 |
| Total Equity | 74,376,418 |
| Total Revenues | 36,375,402 |
| Total Expenditures | 33,348,167 |

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

The District's capital assets consisted of the following as of June 30, 2014:

| Description | Balance | | | | Balance June 30, 2014 |
|--|---------------|-------------|------------|-------------|--------------------------|
| | June 30, 2013 | Additions | Deletions | Transfers | |
| Non-depreciable Capital Assets: | | | | | |
| Land | \$ 44,467 | \$ - | \$ - | \$ - | \$ 44,467 |
| Construction in progress | 3,457,350 | 785,818 | - | (3,200,667) | 1,042,501 |
| Total non-depreciable capital assets | 3,501,817 | 785,818 | - | (3,200,667) | 1,086,968 |
| Depreciable Capital Assets: | | | | | |
| Pump stations | 5,160,663 | 51,922 | - | - | 5,212,585 |
| Fleet | 1,680,820 | 328,427 | (15,795) | - | 1,993,452 |
| Plant and administration facilities | 1,384,851 | 14,533 | - | - | 1,399,384 |
| Buildings | 2,930,902 | 11,233 | - | - | 2,942,135 |
| Flow equalization facilities | 2,901,072 | - | - | - | 2,901,072 |
| Subsurface lines | 41,448,469 | 38,419 | (3,186) | 3,200,667 | 44,684,369 |
| Total depreciable capital assets | 55,506,777 | 444,534 | (18,981) | 3,200,667 | 59,132,997 |
| Less accumulated depreciation for: | | | | | |
| Pump stations | (1,913,063) | (105,821) | - | - | (2,018,884) |
| Fleet | (935,011) | (133,605) | 15,795 | - | (1,052,821) |
| Plant and administration facilities | (1,124,786) | (65,867) | - | - | (1,190,653) |
| Buildings | (741,614) | (88,142) | - | - | (829,756) |
| Flow equalization facilities | (1,992,655) | (90,184) | - | - | (2,082,839) |
| Subsurface lines | (14,235,145) | (791,825) | 1,511 | - | (15,025,459) |
| Total accumulated depreciation | (20,942,274) | (1,275,444) | 17,306 | - | (22,200,412) |
| Total depreciable capital assets - net | 34,564,503 | (830,910) | (1,675) | 3,200,667 | 36,932,585 |
| Total capital assets - net | \$ 38,066,320 | \$ (45,092) | \$ (1,675) | \$ - | \$ 38,019,553 |

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Depreciation expense for the year ended June 30, 2014 and 2013 was \$1,275,444 and \$1,132,035, respectively.

Construction in progress consisted of the following as of June 30, 2014:

| Project | Balance June 30, 2014 |
|---------------------------------------|--------------------------|
| Fair Oaks | \$ 10,598 |
| Oak Grove | 12,110 |
| Easement Design Projects | 78,598 |
| Sausal Vista PS | 52,372 |
| MasterPlan | 302,984 |
| GIS Map Update | 40,008 |
| FEF Metal Storage Building | 24,580 |
| Haven, Marsh, Middlefield & James | 50,191 |
| Hamilton & Village Square Generator | 13,173 |
| Eastside Triangle | 42,570 |
| Flow Monitoring Study | 234,962 |
| NPA Pipe Replace. & Burns Easement | 180,355 |
| Total Construction in Progress | \$ 1,042,501 |

NOTE 6 - NONCURRENT LIABILITIES

The District's noncurrent liabilities consisted of the following as of June 30, 2014:

| Noncurrent Debt | Balance | | | Balance June 30, 2014 | Due Within One Year |
|------------------------------|-------------------|------------------|-----------------|--------------------------|------------------------|
| | July 01, 2013 | Additions | Deductions | | |
| Net OPEB Obligation | \$ 57,571 | \$ 26,200 | \$ 6,112 | \$ 77,659 | \$ - |
| Compensated Absences | 282,870 | 5,911 | - | 288,781 | 163,233 |
| Total Noncurrent Debt | \$ 340,441 | \$ 32,111 | \$ 6,112 | \$ 366,440 | \$ 163,233 |

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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, 2014:

| Commitment | Balance |
|--|---------------|
| Future capital assets replacement and reserves | \$ 16,944,231 |
| Invested in Silicon Valley Clean Water | 17,806,361 |
| Operations | 5,859,021 |
| Total Unrestricted Net Position | \$ 40,609,613 |

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 | 15,750,000 | 25,000 |
| Employment Practices Liability | 15,750,000 | 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 |

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The District has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2013 (most recent information available):

| | June 30, 2013 |
|--------------------|---------------|
| Total Assets | \$ 28,340,390 |
| Total Liabilities | 16,300,058 |
| Total Equity | 12,040,332 |
| Total Revenues | 9,652,254 |
| Total Expenditures | 9,950,148 |

NOTE 10 - DEFINED BENEFIT PENSION PLAN

Plan Description

Substantially all District employees are eligible to participate in pension plans offered by California Public Employees Retirement Systems (CalPERS) a cost sharing multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participant member employers. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the Miscellaneous (all. other) Employee Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full-time employment. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

For the Fiscal Year 2014, the employer's required contribution rate for CalPERS was 14.083% of covered payroll. This rate was established by CalPERS to fund contracted benefits using the actuarial methods and assumptions adopted by the CalPERS Board of Administration. CalPERS may amend employee and employer contribution requirements. Additionally, the District makes a contribution toward the employee's portion of the CalPERS local miscellaneous plan as specified by the existing labor agreements with its bargaining units. During the fiscal year, the employees contributed 4.5% of their salary toward the combined required contribution of 22.1%, leaving the District's total contribution at 17.6% for 2013-14. Total contributions made by employees over the last three fiscal years ended June 30, 2014, 2013 and 2012 were \$105,953, \$71,150 and \$18,205, respectively.

Annual Pension Cost

For the fiscal year ended June 30, 2014, the District's annual pension cost of \$519,876 equaled or exceeded the annual required contribution. The required contribution was determined as part of the June 30, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.50% investment rate of return (net of administrative expenses); (b)

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projected annual salary increases from 3.30% to 14.20% that vary by age, duration of service, and type of employment; (c) 2.75% inflation; (d) 3.00% payroll growth; and (e) individual salary growth based on a merit scale varying by duration of employment coupled with an assumed annual inflation of 2.75% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a period three years.

Three Year Trend Information (Employer Portion)

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------------------|---------------------------|-------------------------------|------------------------|
| 6/30/12 | \$ 278,152 | 100% | 0 |
| 6/30/13 | 304,062 | 100% | 0 |
| 6/30/14 | 331,515 | 100% | 0 |

Required Supplementary Information – Funded Status of the Plan

| Valuation Date Ending June 30, | Entry Age Accrued Liability | Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
|--------------------------------|-----------------------------|-----------------|---------------------------------|--------------|------------------------|---|
| 2011 | \$ 13,702 | \$ 10,480 | \$ 3,222 | 76.5% | \$ 2,140 | 150.6% |
| 2012 | 13,996 | 10,072 | \$ 3,924 | 72.0% | \$ 2,108 | 186.1% |

** In Thousands **

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. Eligible employees retiring at or after age 50 with a minimum of 5 years of service may opt to continue health care coverage, with a portion of the monthly premium paid for by the District. Coverage discontinues either at the request of the retiree or by defaulting on the employee portion of the premium.

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.

Funding Policy

There is no statutory requirement for the District to prefund its OPEB obligation. The District has currently chosen to pay plan benefits on a pay-as-you-go basis. There are no employee contributions. For fiscal year ending June 30, 2014, the District paid approximately \$6,112 for retiree healthcare plan benefits. The Annual Required Contribution (ARC) is an amount actuarially determined in

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accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

Annual OPEB Cost and Net OPEB Obligation

The following table, based on the District's actuarial valuation dated March 1, 2013, shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's Net OPEB obligation:

| | |
|--|-----------|
| Annual required contribution | \$ 27,200 |
| Interest on net OPEB obligation | 2,879 |
| Adjustment to annual required contribution | (3,879) |
| Annual OPEB cost (expense) | 26,200 |
| Contributions made | (6,112) |
| Increase in net OPEB obligation | 20,088 |
| Net OPEB obligation - beginning of year | 57,571 |
| Net OPEB obligation - end of year | \$ 77,659 |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2014, are as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|---------------------------------------|---------------------|
| June 30, 2012 | \$ 17,000 | 23.88% | \$ 25,561 |
| June 30, 2013 | 17,500 | 32.59% | 57,571 |
| June 30, 2014 | 26,200 | 23.33% | 77,659 |

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with the long-term perspective of the calculations.

In the March 1, 2013 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return, which is the expected long-term

West Bay Sanitary District
Notes to Financial Statements
June 30, 2014

investment return on District investments, a 3% general inflation assumption, and an annual aggregate payroll increase rate of 3%.

Required Supplementary Information

| Schedule of Funding Progress - Postemployment Healthcare Plan | | | | | | |
|---|--|--|------------------------------------|--------------------------|---------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a/c)) |
| 3/1/2010 | \$ - | \$ 137,900 | \$ 137,900 | 0.00% | \$ 1,952,200 | 7.06% |
| 3/1/2013 | \$ - | \$ 186,100 | \$ 186,100 | 0.00% | \$ 2,391,800 | 7.78% |

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The District is 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.

SUPPLEMENTARY INFORMATION

West Bay Sanitary District
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2014

| | Budget Amounts | Actual (GAAP Basis) | Variance |
|---|----------------------|------------------------|---------------------|
| Operating Revenues: | | | |
| Service charges | \$ 19,201,684 | \$ 19,297,689 | \$ 96,005 |
| Flow equalization uses | 47,916 | 47,916 | - |
| Permit and inspection fees and other services | 50,000 | 73,217 | 23,217 |
| Other operating revenues | - | 98,256 | 98,256 |
| Total operating revenues | <u>19,299,600</u> | <u>19,517,078</u> | <u>217,478</u> |
| Operating Expenses: | | | |
| Sewage treatment | 8,775,914 | 7,179,182 | 1,596,732 |
| Sewage collection and general administration: | | | |
| Salaries and benefits | 3,941,447 | 3,891,057 | 50,390 |
| Materials and supplies | 343,395 | 329,754 | 13,641 |
| Insurance | 92,000 | 74,594 | 17,406 |
| Contract services | 283,000 | 261,129 | 21,871 |
| Professional services | 425,350 | 234,917 | 190,433 |
| Repairs and maintenance | 258,825 | 217,753 | 41,072 |
| Utilities | 140,500 | 118,175 | 22,325 |
| Other operating expenses | 407,800 | 212,823 | 194,977 |
| Total sewage collection and general administration | <u>5,892,317</u> | <u>5,340,202</u> | <u>552,115</u> |
| Depreciation | 1,200,000 | 1,275,444 | (75,444) |
| Total operating expenses | <u>15,868,231</u> | <u>13,794,828</u> | <u>2,073,403</u> |
| Operating Income (Loss) | <u>3,431,369</u> | <u>5,722,250</u> | <u>2,290,881</u> |
| Nonoperating Revenues (Expenses): | | | |
| Investment income | 185,000 | 163,222 | (21,778) |
| Increase (decrease) of equity in Silicon Valley Clean Water | - | (50,349) | (50,349) |
| Other nonoperating expenses | (13,500) | - | 13,500 |
| Other nonoperating revenues | 1,000 | 18,700 | 17,700 |
| Total nonoperating revenues (expenses) | <u>172,500</u> | <u>131,573</u> | <u>(40,927)</u> |
| Income before contributions | 3,603,869 | 5,853,823 | 2,249,954 |
| Capital Contributions | <u>50,000</u> | <u>167,770</u> | <u>117,770</u> |
| Change in Net Position | 3,653,869 | 6,021,593 | 2,367,724 |
| Beginning Net Position | 72,607,573 | 72,607,573 | - |
| Ending Net Position | <u>\$ 76,261,442</u> | <u>\$ 78,629,166</u> | <u>\$ 2,367,724</u> |

**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

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 the West Bay Sanitary District (the “District”) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated September 12, 2014.

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

September 12, 2014
San Jose, California