

**WEST BAY SANITARY DISTRICT**

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2015

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**West Bay Sanitary District**

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June 30, 2015

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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, 2015, 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, 2015, 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 funding progress for the retiree health benefit plan, as listed in the table of contents and on page 29, 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.

*New Accounting Principles*

As discussed in Notes 2 and 8 to the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective June 30, 2015 and **GASB Statement No 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015 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

October 19, 2015  
San Jose, California

**West Bay Sanitary District**  
Management's Discussion and Analysis  
June 30, 2015

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The West Bay Sanitary District (the District) has issued its financial statements for the fiscal year ended June 30, 2015, 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 \$11,290,823 or 14.8%.
- The District's operating revenue increased by \$2,683,527 or 13.7%.
- The District's operating expenses increased by \$1,025,208 or 7.4%.

**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, 2015**

**NET POSITION**

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

<b>Table 1 - Summary of Net Position</b>				
	2015	2014	Dollar Change	Percent Change
<b>Assets</b>				
Current Assets	\$ 20,737,867	\$ 20,126,813	\$ 611,054	3.0%
Noncurrent Assets	72,984,942	58,454,992	14,529,950	24.9%
<b>Total Assets</b>	<b>\$ 93,722,809</b>	<b>\$ 78,581,805</b>	<b>\$ 15,141,004</b>	<b>19.3%</b>
<b>Deferred Inflows of Resources</b>				
	\$ 368,713	\$ -	\$ 368,713	100.0%
<b>Liabilities</b>				
Current Liabilities	\$ 2,833,337	\$ 1,971,155	\$ 862,182	43.7%
Noncurrent Liabilities	2,885,787	203,207	2,682,580	1320.1%
<b>Total Liabilities</b>	<b>\$ 5,719,124</b>	<b>\$ 2,174,362</b>	<b>\$ 3,544,762</b>	<b>163.0%</b>
<b>Deferred Outflows of Resources</b>				
	\$ 674,132	\$ -	\$ 674,132	100.0%
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 41,285,208	\$ 38,019,553	\$ 3,265,655	8.6%
Unrestricted:				
Capital assets replacement and reserve	22,978,813	16,944,231	6,034,582	35.6%
Invested in SVCW	16,928,356	15,584,638	1,343,718	8.6%
Unreserved	6,505,889	5,859,021	646,868	11.0%
<b>Total Net Position</b>	<b>\$ 87,698,266</b>	<b>\$ 76,407,443</b>	<b>\$ 11,290,823</b>	<b>14.8%</b>

As seen above, the District's total net position increased by \$11,290,823, or 14.8%, from fiscal year 2013-14 to 2014-15. The District's current assets increased by \$611,054. Noncurrent Assets increased by \$14,529,950 resulting from capital spending of \$4,579,696; an increase in the SVCW investment of \$1,343,718; and the addition of \$4,900,000 to long term investments from the significant increase in connection fees. Total Liabilities increased by \$3,544,762 primarily due to the implementation of GASB 68 which required the District to record a net pension liability of \$2,674,755.



**West Bay Sanitary District**  
**Management's Discussion and Analysis**  
**June 30, 2015**

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

<b>Table 2 - Change in Net Position</b>				
	2015	2014	Dollar Change	Percent Change
<b>Revenues</b>				
Operating Revenue	\$ 22,200,605	\$ 19,517,078	\$ 2,683,527	13.7%
<b>Operating Expenses</b>				
Sewage treatment	7,863,183	7,179,182	684,001	9.5%
Sewage collection and general administration	5,656,377	5,340,202	316,175	5.9%
Depreciation	1,300,476	1,275,444	25,032	2.0%
<b>Total Operating Expenses</b>	<b>14,820,036</b>	<b>13,794,828</b>	<b>1,025,208</b>	<b>7.4%</b>
<b>Operating Income (Loss)</b>	<b>7,380,569</b>	<b>5,722,250</b>	<b>1,658,319</b>	<b>29.0%</b>
Nonoperating Revenue (Expense)	190,627	181,922	8,705	4.8%
Increase (decrease) of equity in SVCW	1,343,718	(2,272,072)	3,615,790	-159.1%
Connection Fees	5,696,108	167,770	5,528,338	3295.2%
<b>Change in Net Position Current</b>	<b>14,611,022</b>	<b>3,799,870</b>	<b>10,811,152</b>	<b>284.5%</b>
Prior Period Adjustments to Beginning Net Position	(3,320,199)	-	(3,320,199)	-100.0%
<b>Total Change in Net Position</b>	<b>\$ 11,290,823</b>	<b>\$ 3,799,870</b>	<b>\$ 7,490,953</b>	<b>197.1%</b>

The Statement of Activities and Changes in Net Position (Table2) provides answers as to the nature and sources of the changes shown in Table 1. The net position increase of \$11,290,823 in Table 1 was in part the result of an increase in operating revenues, connection fees, and operating expenses. Operating revenues increased by \$2,683,527 (13.7%) primarily due to a 9% increase in sewer service fees. Connection fees increased \$5,528,338 over the prior year as a result of several large commercial and residential developments within the District. Total operating expenses, which include sewage treatment, collection, general administration, and depreciation, increased \$1,025,208 (7.4%) over the prior year.

Sewage treatment increased by 9.5% 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, 2015, the District's share was approximately 26%. The cost of sewage treatment increased significantly in FY2014-15 as a result of new SVCW bond and debt service for capital improvements. For FY2014-15 the District's share of SVCW bond and debt service totaled \$2,513,239 which was an increase of almost \$933,968 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, 2015

**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, 2015.

<b>Table 3 - Budget Summary</b>				
	Budget	Actual	Variance	Percent Variance
<b>Revenues</b>				
Operating Revenue	\$ 21,092,847	\$ 22,200,605	\$ 1,107,758	5.3%
<b>Operating Expenses</b>				
Sewage treatment	9,486,382	7,863,183	1,623,199	20.6%
Sewage collection and general administration	6,109,252	5,656,377	452,875	8.0%
Depreciation	1,400,000	1,300,476	99,524	7.7%
<b>Total Operating Expenses</b>	<b>16,995,634</b>	<b>14,820,036</b>	<b>2,175,598</b>	<b>14.7%</b>
<b>Operating Income (Loss)</b>	<b>4,097,213</b>	<b>7,380,569</b>	<b>3,283,356</b>	<b>80.1%</b>
Nonoperating Revenue	107,500	190,627	83,127	43.6%
Increase (decrease) of equity in SVCW	-	1,343,718	1,343,718	100.0%
Connection Fees	50,000	5,696,108	5,646,108	11292.2%
<b>Change in Net Position</b>	<b>\$ 4,254,713</b>	<b>\$ 14,611,022</b>	<b>\$ 10,356,309</b>	<b>243.4%</b>

The District reported \$1,107,758 more in operating revenue than budgeted primarily resulting from higher sewer service fees collected. Total operating expenses were \$2,175,598 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, 2015:

<b>Table 4 - Capital Fund Budget Summary</b>				
	Budget	Actual	Variance	Percent Variance
Transfer from Operations	\$ 5,509,713	\$ 8,392,080	\$ 2,882,367	52%
Capital Expenditures	(7,212,500)	(4,579,696)	2,632,804	57%
Connection Charges	50,000	5,696,108	5,646,108	11292%
Interest Income	75,000	130,615	55,615	74%
Capital Projects Reserve	(350,000)	(2,450,000)	(2,100,000)	600%
Emergency Capital Fund	(350,000)	(2,450,000)	(2,100,000)	600%
Change in capital Asset Fund	(2,277,787)	4,739,107	7,016,894	308%
Beginning Fund Balance	11,258,357	13,344,231	2,085,874	19%
Ending Fund Balance	\$ 8,980,570	\$ 18,083,338	\$ 9,102,768	101%

Actual Capital Expenditures of \$4,579,696 to acquire capital equipment and replace or rehabilitate old sewer pipeline were \$2,632,804 less than budgeted. The favorable variances in connection fees allowed the District also set aside \$2,450,000 for emergency capital repairs and \$2,450,000 for future capital projects which fully funded these reserves. Due to the favorable variances in total revenue and total expense to budget, the District was able to transfer \$8,392,080 to the Capital Asset Fund at year end which contributed to an ending Fund balance of \$18,083,338.

**West Bay Sanitary District**  
Management's Discussion and Analysis  
June 30, 2015

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**CAPITAL ASSETS**

Table 5 shows a summary of capital assets owned by the District as of June 30, 2015.

<b>Table 5 - Summary of Capital Assets Net of Depreciation</b>				
Capital Asset	2015	2014	Dollar Change	Percent Change
Land	\$ 44,467	\$ 44,467	\$ -	0.00%
Construction in Progress	4,276,708	1,042,501	3,234,207	310.24%
Pump stations	3,144,058	3,193,701	(49,643)	-1.55%
Fleet	1,084,255	940,631	143,624	15.27%
Plant and administration facilities	154,905	208,731	(53,826)	-25.79%
Buildings	2,038,177	2,112,379	(74,202)	-3.51%
Flow equalization facilities	728,049	818,233	(90,184)	-11.02%
Subsurface lines	29,814,589	29,658,910	155,679	0.52%
Net Capital Assets	\$ 41,285,208	\$ 38,019,553	\$ 3,265,655	8.59%

**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.

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## **BASIC FINANCIAL STATEMENTS**

**West Bay Sanitary District**  
Statement of Net Position  
June 30, 2015  
(With Comparative Totals as of June 30, 2014)

	2015	2014
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 20,225,092	\$ 19,663,174
Accounts receivable	387,717	388,250
Interest receivable	82,410	41,084
Prepaid expenses and other current assets	42,648	34,305
<b>Total Current Assets</b>	<b>20,737,867</b>	<b>20,126,813</b>
Noncurrent Assets:		
Investments	14,771,378	4,850,801
Investment in Silicon Valley Clean Water	16,928,356	15,584,638
Capital assets:		
Non-depreciable	4,321,175	1,086,968
Depreciable net of accumulated depreciation	36,964,033	36,932,585
<b>Total Capital Assets - Net</b>	<b>41,285,208</b>	<b>38,019,553</b>
<b>Total Noncurrent Assets - Net</b>	<b>72,984,942</b>	<b>58,454,992</b>
<b>Total Assets</b>	<b>\$ 93,722,809</b>	<b>\$ 78,581,805</b>
<b>Deferred Outflows of Resources</b>		
Pension contributions	\$ 368,713	\$ -
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable	\$ 2,656,423	\$ 1,684,370
Payroll and related liabilities	6,296	8,097
Construction deposits	9,381	115,455
Compensated absences payable - current	161,237	163,233
<b>Total Current Liabilities</b>	<b>2,833,337</b>	<b>1,971,155</b>
Noncurrent Liabilities:		
Net OPEB obligation	99,221	77,659
Net pension obligation	2,674,755	-
Compensated absences payable - noncurrent	111,811	125,548
<b>Total Noncurrent Liabilities</b>	<b>2,885,787</b>	<b>203,207</b>
<b>Total Liabilities</b>	<b>\$ 5,719,124</b>	<b>\$ 2,174,362</b>
<b>Deferred Inflows of Resources</b>		
Pension adjustments from projected and actual earnings	\$ 674,132	\$ -
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 41,285,208	\$ 38,019,553
Unrestricted:		
Reserved for future capital assets replacement and reserves	22,978,813	16,944,231
Invested in Silicon Valley Clean Water	16,928,356	15,584,638
Operations reserve	6,505,889	5,859,021
<b>Total Net Position</b>	<b>\$ 87,698,266</b>	<b>\$ 76,407,443</b>

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, 2015  
(With Comparative Totals for the Fiscal Year Ended June 30, 2014)

	2015	2014
<b>Operating Revenues:</b>		
Service charges	\$ 21,067,232	\$ 19,297,689
Flow equalization uses	300,000	47,916
Permit and inspection fees and other services	461,718	73,217
Other operating revenues	371,655	98,256
Total operating revenues	<u>22,200,605</u>	<u>19,517,078</u>
<b>Operating Expenses:</b>		
Sewage treatment	7,863,183	7,179,182
Sewage collection and general administration:		
Salaries and benefits	3,801,631	3,891,057
Materials and supplies	373,822	329,754
Insurance	75,350	74,594
Contract services	373,941	261,129
Professional services	506,079	234,917
Repairs and maintenance	201,633	217,753
Utilities	115,553	118,175
Other operating expenses	208,368	212,823
Total sewage collection and general administration	<u>5,656,377</u>	<u>5,340,202</u>
Depreciation	1,300,476	1,275,444
Total operating expenses	<u>14,820,036</u>	<u>13,794,828</u>
Operating Income (Loss)	<u>7,380,569</u>	<u>5,722,250</u>
<b>Nonoperating Revenues (Expenses):</b>		
Investment income	181,675	163,222
Increase (decrease) of equity in Silicon Valley Clean Water	1,343,718	(2,272,072)
Other nonoperating revenues	8,952	18,700
Total nonoperating revenues (expenses)	<u>1,534,345</u>	<u>(2,090,150)</u>
Income before contributions	8,914,914	3,632,100
<b>Capital Contributions:</b>		
Capital contributions - connection fees	<u>5,696,108</u>	<u>167,770</u>
Change in Net Position	14,611,022	3,799,870
Beginning Net Position	76,407,443	72,607,573
Prior Period Adjustment - GASB 68	(3,320,199)	-
Beginning Net Position - As Adjusted	<u>73,087,244</u>	<u>72,607,573</u>
Ending Net Position	<u>\$ 87,698,266</u>	<u>\$ 76,407,443</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, 2015  
(With Comparative Totals for the Fiscal Year Ended June 30, 2014)

	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 22,201,138	\$ 19,738,381
Cash payments to suppliers for goods and services	(8,860,293)	(8,768,339)
Cash payments to employees for services	(2,528,503)	(2,709,031)
Cash payments of benefits on behalf of employees	(1,609,125)	(1,152,382)
Net Cash Provided (Used) by Operating Activities	<u>9,203,217</u>	<u>7,108,629</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Cash received from connection fees	5,696,108	167,770
Purchases and construction of capital assets	(4,566,131)	(1,228,677)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>1,129,977</u>	<u>(1,060,907)</u>
<b>Cash Flows from Investing Activities:</b>		
Sales, purchases and redemption of investments - net	(9,920,577)	139,534
Investment income	140,349	159,771
Other income (expense)	8,952	18,700
Net Cash Provided (Used) by Investing Activities	<u>(9,771,276)</u>	<u>318,005</u>
Net Increase (Decrease) in Cash and Cash Equivalents	561,918	6,365,727
Cash and Cash Equivalents Beginning	<u>19,663,174</u>	<u>13,297,447</u>
Cash and Cash Equivalents Ending	<u>\$ 20,225,092</u>	<u>\$ 19,663,174</u>
<b>Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 7,380,569	\$ 5,722,250
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,300,476	1,275,444
GASB 68 pension adjustments	(340,025)	-
Net change in:		
Accounts receivable	533	221,303
Prepaid expenses and other current assets	(8,343)	(1,724)
Deposits	(106,074)	-
Accounts payable	972,053	(138,288)
Payroll and related liabilities	(1,801)	3,645
Net OPEB obligation	21,562	20,088
Compensated absences	(15,733)	5,911
Net Cash Provided (Used) by Operating Activities	<u>\$ 9,203,217</u>	<u>\$ 7,108,629</u>

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



**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2015

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**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 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 *GASBS No. 62, Codification of Accounting*

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*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, 2015.

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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.

*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.

*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

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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.

*Implemented New Accounting Pronouncements*

**GASB 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 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 has been implemented as of June 30, 2015 resulting in a prior period adjustment of \$3,320,199. See Note 10 for information related to the financial statement impact of this statement.

**GASB Statement No. 69** – In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposal of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposal of government operations. As used in this Statement, *combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. There was no financial statement effect related to this Statement.

**GASB Statement No. 70** – In April, 2013, GASB issued Statement No 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). The District does not participate in nonexchange financial guarantees. Therefore, this Statement had no financial statement effect.

**GASB Statement No. 71** – **In November, 2013, GASB issued Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68***. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement were required to be applied simultaneously with the provisions of Statement 68 and have been implemented as of June 30, 2015. See Note 10 for information related to the financial statement impact of this statement.

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*Upcoming New Accounting Pronouncements*

**GASB Statement No. 72** – In February, 2015, GASB issued Statement No 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 (fiscal year ending June 30, 2016). The District is in the process of determining the impact this statement will have on the financial statements, but does not anticipate a material impact on its financial statements.

**GASB Statement No. 73** – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Effective date: the provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement also clarifies the application of certain provisions of Statements 67 and 68. The District is in the process of determining the impact this statement will have on the financial statements, but does not anticipate a material impact on its financial statements.

**GASB Statement No. 74** – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Effective date: the provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. Management anticipates that this statement will not have a direct impact on the District's financial statements.

**GASB Statement No. 75** – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective date: the provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other

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postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

The District is in the process of determining the impact this statement will have on the financial statements.

**GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.** Effective date: the provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Management anticipates that this statement will not have a material impact on the District’s financial statements.

**GASB Statement No. 77 – *Tax Abatement Disclosures*.** Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

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- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Management anticipates that this statement will not have a material impact on the District's financial statements.

**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

The District's cash, cash equivalents and investments consisted of the following as of June 30, 2015 and 2014:

Deposit or Investment	Rating	Fair Value June 30, 2015	Maturities				Concen- trations	Fair Value June 30, 2014
			12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months		
Bank of the West Investments:								
Municipal Bonds	AA+/AA3	\$ 2,494,521	\$ 282,939	\$ 522,320	\$ 1,566,494	\$ 122,769	7.13%	\$ 558,493
Corporate Bonds	BBB/A+	7,261,851	1,713,105	641,200	4,907,547	-	20.75%	2,460,756
US Agency Obligations	Govt	5,015,005	165,724	1,467,979	3,290,409	90,893	14.33%	1,831,552
Total Bank of West Investments	AAA	14,771,378	2,161,768	2,631,499	9,764,449	213,662	42.21%	4,850,801
Cash on hand and in banks	N/A	952,612	952,612	-	-	-	2.72%	873,208
Money Market	N/A	17,854,027	17,854,027	-	-	-	51.02%	17,277,347
Bank of the West Cash Equivalents	N/A	400,565	400,565	-	-	-	1.14%	497,209
LAIF	N/A	1,017,288	1,017,288	-	-	-	2.91%	1,014,810
Petty Cash	N/A	600	600	-	-	-	0.00%	600
<b>Total Cash, Cash Equivalents and Investments</b>		<b>\$ 34,996,470</b>	<b>\$ 22,386,860</b>	<b>\$ 2,631,499</b>	<b>\$ 9,764,449</b>	<b>\$ 213,662</b>	<b>100.00%</b>	<b>\$ 24,513,975</b>

*Cash Deposits*

As of June 30, 2015, the District's cash deposits exceeded the Federal Deposit Insurance Corporation ("FDIC") insured limits by \$835,781, but had little exposure since they were collateralized as noted in the *Collateral and Categorization Requirements* disclosure on page 19. 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 District 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, 2015, was approximately \$69.6 billion of that amount, 99.24% was invested in non-derivative financial products and .76% was invested in structured notes and asset-backed securities. The average maturity for the investment in LAIF was 462 days.

*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.

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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 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 19 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 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, 2015 and 2014, the District had approximately 26% and 21% equity interest in SVCW, which is reported using the equity method of accounting. The District's investment in SVCW at June 30, 2015 and 2014 was \$16,928,356 and \$15,584,638, respectively, as reflected on the statement of net position. The change in the investment for the years ended June 30, 2015 and 2014 was an increase of \$1,343,718 and a decrease of \$2,272,072, respectively, as reflected in the statement of revenues, expenses and changes in net position. The 2015 increase in the District's equity share was attributed to increases in member fees and capacity fees. Since 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 remains the same. 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, 2015, (most recent information available):

	June 30, 2015
Total Assets	\$ 245,999,700
Deferred Outflows of Resources	1,203,805
Total Liabilities	179,716,508
Deferred Inflows of Resources	2,073,330
Total Equity	65,413,667
Total Revenues	36,185,226
Total Expenditures	33,961,113

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

The District's capital assets consisted of the following as of June 30, 2015:

Description	Balance July 1, 2014	Additions	Deletions	Transfers	Balance June 30, 2015
<b>Non-depreciable Capital Assets:</b>					
Land	\$ 44,467	\$ -	\$ -	\$ -	\$ 44,467
Construction in progress	1,042,501	4,137,735	-	(903,528)	4,276,708
Total non-depreciable capital assets	1,086,968	4,137,735	-	(903,528)	4,321,175
<b>Depreciable Capital Assets:</b>					
Pump stations	5,212,585	52,310	-	-	5,264,895
Fleet	1,993,452	283,695	-	-	2,277,147
Plant and administration facilities	1,399,384	12,944	(14,533)	-	1,397,795
Buildings	2,942,135	14,423	-	-	2,956,558
Flow equalization facilities	2,901,072	-	-	-	2,901,072
Subsurface lines	44,684,369	78,589	-	903,528	45,666,486
Total depreciable capital assets	59,132,997	441,961	(14,533)	903,528	60,463,953
Less accumulated depreciation for:					
Pump stations	(2,018,884)	(101,953)	-	-	(2,120,837)
Fleet	(1,052,821)	(140,071)	-	-	(1,192,892)
Plant and administration facilities	(1,190,653)	(53,205)	968	-	(1,242,890)
Buildings	(829,756)	(88,625)	-	-	(918,381)
Flow equalization facilities	(2,082,839)	(90,184)	-	-	(2,173,023)
Subsurface lines	(15,025,459)	(826,438)	-	-	(15,851,897)
Total accumulated depreciation	(22,200,412)	(1,300,476)	968	-	(23,499,920)
Total depreciable capital assets - net	36,932,585	(858,515)	(13,565)	903,528	36,964,033
Total capital assets - net	\$ 38,019,553	\$ 3,279,220	\$ (13,565)	\$ -	\$ 41,285,208

Depreciation expense for the year ended June 30, 2015 and 2014 was \$1,300,476 and \$1,275,444, respectively.

Construction in progress consisted of the following as of June 30, 2015:

Project	Balance June 30, 2015
Fair Oaks	\$ 10,598
Oak Grove	12,110
Easement Design Projects	78,598
Sausal Vista PS	166,600
FEF Metal Storage Building	24,580
Haven, Marsh, Middlefield & James	50,191
Eastside Triangle	677,952
NPA Pipe Replace. & Burns Easement	3,256,079
Total Construction in Progress	\$ 4,276,708

**West Bay Sanitary District**  
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**NOTE 6 - NONCURRENT LIABILITIES**

The District's noncurrent liabilities consisted of the following as of June 30, 2015:

Noncurrent Debt	Balance			Balance June 30, 2015	Due Within One Year
	July 01, 2014	Additions	Deductions		
Net OPEB Obligation	\$ 77,659	\$ 25,900	\$ 4,338	\$ 99,221	\$ -
Net Pension Obligation	-	3,654,677	979,922	2,674,755	-
Compensated Absences	288,781	-	15,733	273,048	161,237
<b>Total Noncurrent Debt</b>	<b>\$ 366,440</b>	<b>\$ 3,680,577</b>	<b>\$ 999,993</b>	<b>\$ 3,047,024</b>	<b>\$ 161,237</b>

**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, 2015:

Commitment	Balance
Future capital assets replacement and reserves	\$ 22,978,813
Invested in Silicon Valley Clean Water Operations	16,928,356
	6,505,889
<b>Total Committed Net Position</b>	<b>\$ 46,413,058</b>

**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.

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2015

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**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:

<b>Type of Coverage</b>	<b>Limits</b>	<b>Deductibles</b>
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

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, 2014 (most recent information available):

	June 30, 2014
Total Assets	\$ 27,379,073
Total Liabilities	16,413,379
Total Equity	10,965,694
Total Revenues	10,812,970
Total Expenditures	11,887,608

**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 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service for Tier 1 and 10 years of service for Tier 2. The death benefit is one of the following: the Basic Death

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2015

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

	<b>Tier 1</b>	<b>Tier 2</b>	<b>PEPRA</b>
Hire date	Before June 27, 2011	After June 27, 2011; Before January 1, 2013	On or after January 1, 2013
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	50	60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%	2.00%
Required employee contribution rates	8.00%	7.00%	6.25%
Required employer contribution rates	15.14%	8.00%	6.25%

**Employees Covered** - At June 30, 2015, the following employees were covered by the benefit terms for the Plan:

Inactive employees receiving benefits	28
Inactive employees entitled to but not receiving benefits	11
Active members	25
<b>Total Employees Covered</b>	<b>64</b>

**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, 2015, the contributions recognized as part of pension expense for the Plan were as follows:

Contributions - employer	\$ 353,860
Contributions - employee	188,588

During the fiscal year, the employees contributed 6.027% of their salary toward the combined required contribution of 23.14%, leaving the District's total contribution at 17.11% for 2015. Total contributions made by employees over the last three fiscal years ended June 30, 2015, 2014 and 2013 were \$142,082, \$105,953 and \$71,150, respectively.

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2015

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of \$2,674,755. 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, 2014, 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, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension 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, 2013 and 2014 was as follows:

Proportion - June 30, 2013	0.1115%
Proportion - June 30, 2014	0.1082%
Change	-0.0033%

For the year ended June 30, 2015, the District recognized pension expense of \$(340,025). At June 30, 2015, 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
Pension contributions subsequent to measurement date	\$ 365,293	\$ -
Adjustment due to Differences in Proportions	5,321	-
Amortization of differences in earnings and proportions	(1,901)	(224,710)
Net differences between projected and actual earnings on plan investments	-	898,842
<b>Total</b>	<b>\$ 368,713</b>	<b>\$ 674,132</b>

The District reported \$365,293 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Recognized to Pension Expense
2016	\$ (222,809)
2017	(223,191)
2018	(224,712)
<b>Total</b>	<b>\$ (670,712)</b>

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2015

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**Actuarial Assumptions** - The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)
(1) Depending on age, service and type of employment	
(2) Net of pension plan investment expenses, including inflation	
(3) Derived using CalPERS' membership data for all funds	

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.50 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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



**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2015

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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. 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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.  
(b) An expected inflation of 3.0% 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:

1% Decrease	6.50%
Net Pension Liability	\$ 4,765,586
Current Discount Rate	7.50%
Net Pension Liability	\$ 2,674,755
1% Increase	8.50%
Net Pension Liability	\$ 939,563

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2015

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

**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, 2015, the District paid approximately \$4,338 for retiree healthcare plan benefits. The Annual Required Contribution (ARC) is an amount actuarially determined in 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	3,883
Adjustment to annual required contribution	(5,183)
Annual OPEB cost (expense)	25,900
Contributions made	(4,338)
Increase in net OPEB obligation	21,562
Net OPEB obligation - beginning of year	77,659
Net OPEB obligation - end of year	\$ 99,221

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2015

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, 2015, are as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 17,500	32.59%	\$ 57,571
June 30, 2014	26,200	23.33%	77,659
June 30, 2015	25,900	16.75%	99,221

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 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 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%

**West Bay Sanitary District**  
Notes to Financial Statements  
June 30, 2015

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**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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**West Bay Sanitary District**  
Schedule of Pension Contributions - CalPERS  
For the Fiscal Year Ended June 30, 2015

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	2015
<b>Tier 1 (2.5% @ 55)</b>	
Contractually Required Contributions (Actuarially Determined)	\$ 334,478
Contributions in Relation to Actuarially Determined Contributions	334,478
<b>Contribution Deficiency (Excess)</b>	-
 <b>Covered Employee Payroll</b>	 <b>\$ 2,352,339</b>
 <b>Contributions as a Percentage of Covered Payroll</b>	 <b>14.22%</b>

**Notes to Schedule:**

Valuation Date: June 30, 2013  
Assumptions Used: Entry Age Method used for Actuarial Cost Method  
Level Percentage of Payroll (Closed) Used Amortization Method  
3.8 Years Remaining Amortization Period  
Inflation Assumed at 2.75%  
Investment Rate of Returns set at 7.5%  
CalPERS mortality table using 20 years of membership data for all funds

\*\* Fiscal year 2015 was the first year of implementation, therefore only one year is shown

**West Bay Sanitary District**  
Schedule of Proportionate Share of Net Pension Liability  
For the Fiscal Year Ended June 30, 2015

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	<u>2015</u>
<b>Tier 1 (2.5% @ 55)</b>	
District's Proportion of Net Pension Liability	0.04299%
District's Proportionate Share of Net Pension Liability	\$ 2,674,755
District's Covered Employee Payroll	\$ 2,352,339
<b>District's Proportionate Share of NPL as a % of Covered Employee Payroll</b>	<b>113.71%</b>
<b>Plan Fiduciary's Net Position as a % of the TPL</b>	<b>83.03%</b>

\*\* Fiscal year 2015 was the first year of implementation, therefore only one year is shown

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**SUPPLEMENTARY INFORMATION**

**West Bay Sanitary District**  
 Budgetary Comparison Schedule  
 For the Fiscal Year Ended June 30, 2015

	Budget Amounts	Actual (GAAP Basis)	Variance
<b>Operating Revenues:</b>			
Service charges	\$ 20,994,847	\$ 21,067,232	\$ 72,385
Flow equalization uses	48,000	300,000	252,000
Permit and inspection fees and other services	50,000	461,718	411,718
Other operating revenues	-	371,655	371,655
Total operating revenues	<u>21,092,847</u>	<u>22,200,605</u>	<u>1,107,758</u>
<b>Operating Expenses:</b>			
Sewage treatment	9,486,382	7,863,183	1,623,199
Sewage collection and general administration:			
Salaries and benefits	4,052,752	3,801,631	251,121
Materials and supplies	323,395	373,822	(50,427)
Insurance	92,000	75,350	16,650
Contract services	388,000	373,941	14,059
Professional services	425,350	506,079	(80,729)
Repairs and maintenance	252,825	201,633	51,192
Utilities	140,500	115,553	24,947
Other operating expenses	434,430	208,368	226,062
Total sewage collection and general administration	<u>6,109,252</u>	<u>5,656,377</u>	<u>452,875</u>
Depreciation	1,400,000	1,300,476	99,524
Total operating expenses	<u>16,995,634</u>	<u>14,820,036</u>	<u>2,175,598</u>
Operating Income (Loss)	<u>4,097,213</u>	<u>7,380,569</u>	<u>3,283,356</u>
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	125,000	181,675	56,675
Increase (decrease) of equity in Silicon Valley Clean Water	-	1,343,718	1,343,718
Other nonoperating expenses	(18,500)	-	18,500
Other nonoperating revenues	1,000	8,952	7,952
Total nonoperating revenues (expenses)	<u>107,500</u>	<u>1,534,345</u>	<u>1,426,845</u>
Income before contributions	4,204,713	8,914,914	4,710,201
<b>Capital Contributions</b>	<u>50,000</u>	<u>5,696,108</u>	<u>5,646,108</u>
Change in Net Position	4,254,713	14,611,022	10,356,309
Prior Period Adjustment - GASB 68	(3,320,199)	(3,320,199)	-
Beginning Net Position	76,407,443	76,407,443	-
Ending Net Position	<u>\$ 77,341,957</u>	<u>\$ 87,698,266</u>	<u>\$ 10,356,309</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, 2015, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated October 19, 2015.

**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

October 19, 2015  
San Jose, California