WEST BAY
SANITARY DISTRICT

Serving Our Community Since 1902

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

PHIL SCOTT
District Manager

In reply, please refer to our
File No.

January 24, 2011

MEMORANDUM

TO: West Bay Sanitary District's Customers & Owners

FROM: West Bay Sanitary District Board of Directors

RE: Financial Audit – Fiscal Year 2009 – 2010

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

Attached is the audit report for the fiscal year between July 1, 2009 and June 30, 2010. It was completed by the independent audit firm of Vavrinek, Trine, Day & Co., LLP.

We are pleased that the auditors found:

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

WBSD Board of Directors:

Ron Shepherd	President
David Walker	Secretary
Ned Moritz	Treasurer
Fran Dehn	Director
Harry Harrison	Director

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*

Governing Board
West Bay Sanitary District
Menlo Park, California

We have audited the financial statements of West Bay Sanitary District as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 30, 2010. We conducted our audits 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Bay Sanitary District's internal control over financial reporting as a basis for designing our auditing procedures 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 West Bay Sanitary District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the West Bay Sanitary District's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Bay Sanitary 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*.

This report is intended solely for the information and use of the governing board, management, the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
November 30, 2010

WEST BAY SANITARY DISTRICT

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009

WITH

INDEPENDENT AUDITORS' REPORT

WEST BAY SANITARY DISTRICT

JUNE 30, 2010 AND 2009

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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Governing Board
West Bay Sanitary District
Menlo Park, California

We have audited the accompanying basic financial statements of West Bay Sanitary District as of and for the years ended June 30, 2010 and 2009. These basic financial statements are the responsibility of West Bay Sanitary District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, *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 basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of West Bay Sanitary District, as of June 30, 2010 and 2009, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office for special districts.

As discussed in Note 1 to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pension,* for the year ended June 30, 2010.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 30, 2010 on our consideration of the District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The required supplementary information, such as management's discussion and analysis and schedule of funding progress for the retiree health benefit plan, as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Bay Sanitary District's basic financial statements. The budgetary comparison schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
November 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010

Our discussion and analysis of the West Bay Sanitary District's (District) financial performance provide an overview of the District's financial activities for the fiscal year ended June 30, 2010. This information is presented in conjunction with the audited financial statements. Readers are encouraged to consider the information presented herein with those statements.

Financial Highlights

- **The District's Total Net Assets increased $2,515,814 or 4.3%**
- **Operating Revenues increased $3,533,557 or 34.6%**
- **Non-Operating Revenues decreased $200,496 or 47.4%**
- **Connection Fees decreased $115,515 or 77.9%**
- **Operating Expenses increased $1,290,911 or 12.7%**
- **The District's Cash and Cash Equivalents increased $2,864,602 or 25.5%**

Overview of the Financial Statements
This annual report includes the Management's discussion and analysis report, the independent auditors' 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.

Required Financial Statements
The financial Statements of the District report information utilizing methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

- Statement of Net Assets – reports the District's current financial resources (short-term spendable resources) with capital assets and long term obligations.
- Statement of Revenues, Expenses and Changes in Net Assets – reports the District's operating and non-operating revenues by major source along with operating and non-operating expenses and capital contributions.
- Statement of Cash Flows – reports the District's cash flows from operating activities, investing, capital and non-capital activities.

Net Assets
Districts Total Net Assets increased $2.5M, or 4.3%, from $58,264,748 to $60,780,562.

The District's Total Assets, excluding Capital Assets, increased from $29,718,251 to $32,794,998, or 10.3%, in 2010. Most of this increase resulted from the $3.5 million increase in sewer service revenue.

The District had $29,315,086 (net of accumulated depreciation) invested in capital assets at the end of fiscal year 2010. The assets include: land, buildings, sewage collection system consisting of subsurface lines and pumps, and equipment. Capital expenditures in the current year totaled $664K which, due to postponement of various capital projects until fiscal year 2010/11, was $2.4 million less than Budget. Additional information on the District's capital assets can be found in Note #4 – Capital Assets.

Liabilities
Current Liabilities increased $375.5K from $802,837 to $1,178,336. The major component contributing to this increase was the accrual for the SBSA bond payments paid in August 2010. Noncurrent Liabilities are the accrued long term portion of compensated absences payable (vacation and other paid leave payable upon separation from the District). The District has no other long term indebtedness.

The following are the District's condensed statements of net assets:

	2010	2009	Change	%
Current Assets	$ 14,710,119	$ 11,768,625	$ 2,941,494	25.0%
Capital Assets (net of accumulated depreciation)	29,315,086	29,470,836	(155,750)	-0.5%
Other Assets	18,084,879	17,949,626	135,253	0.8%
Total Assets	62,110,084	59,189,087	2,920,997	4.9%
Current Liabilities	1,178,336	802,837	375,499	46.8%
Noncurrent Liabilities	151,186	121,502	29,684	24.4%
Total Liabilities	1,329,522	924,339	405,183	43.8%
Invested in Capital Assets	29,315,086	29,470,836	(155,750)	-0.5%
Unrestricted	31,465,476	28,793,912	2,671,564	9.3%
Total Fund Net Assets	$ 60,780,562	$ 58,264,748	$ 2,515,814	4.3%

Revenues
Operating Revenues increased 34.6% in 2010 over the previous year from $10,204,381 to $13,737,938.

Sewer Service Charges, the largest component of Operating Revenue, increased from $10,082,662 to $13,642,716 in 2010. Although sewer service rates were increased by 40% in 2010, lower commercial usage reduced the overall increase in revenue to 35% over the previous year.

The District leases the Flow Equalization Facility to the South Bayside System Authority (SBSA) for use during peak wet weather flows or other emergencies. The District charges $2,000 for each use. In fiscal year 2010, the facility was utilized for a total of 27 days resulting in revenue of $54,000, the same amount as in 2009.

Permit & Inspection Fees decreased from $62,719 in 2009 to $34,031 in 2010, reflective of continued economic weakness.

Non-Operating Revenues decreased from $411,652 in 2009 to $222,487 in 2010. This resulted primarily from significantly lower investment earnings than in the previous year plus a slightly smaller gain in SBSA equity than in the prior year.

Connection Fees decreased from $148,332 in 2009 to $32,817 in 2010, a decrease of 78%. Again, this year to year decline continues to reflect the economic slowdown.

Operating Expenses

The District's Operating Expenses fall into four distinct categories: the cost to treat the wastewater, paid directly to the SBSA; the cost to maintain the collection system; administration of the District; and depreciation.

The District's treatment costs are the costs incurred by SBSA to treat the wastewater transmitted via the collection system to SBSA. The cost of treatment increased by $1.4 million or 26.8%, from $5,136,490 in 2009 to $6,516,047 in 2010. The bulk of this increase, $1.1 million, resulted from payments for the SBSA $10 million and $55 million bond debt.

The expense of operating the collection system and administering the District was $4,141,514 compared to $4,296,173 in 2009. This represents a 3.6 % decrease from prior year and resulted primarily from lower salaries and the associated employee benefits expenses due to staff vacancies.

The following are the District's condensed statements of revenues, expenses and net assets:

	2010	2009	Change	%
Operating Revenue	$ 13,737,938	$ 10,204,381	$ 3,533,557	34.6%
Non-Operating Revenue	222,487	422,983	(200,496)	-47.4%
Total Revenues	13,960,425	10,627,364	3,333,061	31.4%
Operating Expenses	11,477,428	10,186,517	1,290,911	12.7%
Non-Operating Expenses	-	11,331	(11,331)	-100.0%
Total Expenses	11,477,428	10,197,848	1,279,580	12.5%
Income (loss) before capital contributions	2,482,997	429,516	2,053,481	478.1%
Connection fee revenue	32,817	148,332	(115,515)	-77.9%
Increase (decrease) in Net Assets	2,515,814	577,848	1,937,966	335.4%
Fund Net Assets, Beginning of Year	58,264,748	57,686,900	577,848	1.0%
Fund Net Assets, End of Year	$ 60,780,562	$ 58,264,748	$ 2,515,814	4.3%

Bonded Indebtedness

The District continues to operate on a Pay-As-You-Go basis and has no bonded indebtedness.

Rates and Other 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.

Request for Information

This financial report is designed to provide our customers with 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.

WEST BAY SANITARY DISTRICT

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

ASSETS	2010	2009
Current assets:		
Cash and cash equivalents	$ 14,087,333	$ 11,222,731
Interest receivable	26,984	48,863
Accounts receivable	532,693	421,696
Prepaid expenses and other current assets	63,109	59,958
Deposits	-	15,377
Total Current Assets	14,710,119	11,768,625
Other Assets:		
Investments	600,563	615,188
Capital assets		
Nondepreciable	446,014	1,181,814
Depreciable, net of accumulated depreciation	28,869,072	28,289,022
Investment in South Bayside System Authority	17,484,316	17,334,438
Total Other Assets	47,399,965	47,420,462
Total assets	62,110,084	59,189,087
LIABILITIES		
Current Liabilities:		
Accounts payable	933,097	559,981
Payroll and related liabilities	8,587	10,489
Current portion of compensated absences payable	108,577	116,912
Construction deposits	115,455	115,455
OPEB liability	12,620	-
Total Current Liabilities	1,178,336	802,837
Noncurrent Liabilities:		
Compensated absences payable, net of current portion	151,186	121,502
Total Noncurrent Liabilities	151,186	121,502
Total Liabilities	1,329,522	924,339
NET ASSETS		
Net Assets		
Invested in capital assets	29,315,086	29,470,836
Unrestricted	31,465,476	28,793,912
Total Net Assets	$ 60,780,562	$ 58,264,748

The accompanying notes are an integral part of these financial statements.

WEST BAY SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUE		
Service charges	$ 13,642,716	$ 10,082,662
Flow equalization uses	54,000	54,000
Permit and inspection fees and other services	34,031	62,719
Other operating revenues	7,191	5,000
Total Operating Revenues	13,737,938	10,204,381
OPERATING EXPENSES		
Sewage treatment - South Bayside System Authority	6,516,047	5,136,490
Sewage collection	2,526,053	2,776,131
General and administration	1,615,461	1,520,042
Depreciation	819,867	753,854
Total Operating Expenses	11,477,428	10,186,517
OPERATING INCOME (LOSS)	2,260,510	17,864
NON-OPERATING REVENUE (EXPENSE)		
Investment income	71,987	264,331
Other non-operating revenue (expense), net	622	(11,331)
Increase (decrease) of Equity in South Bayside System Authority	149,878	158,652
Total non-operating revenue (expense), net	222,487	411,652
Income before contributions and transfers	2,482,997	429,516
Capital contributions - connection fees	32,817	148,332
CHANGE IN NET ASSETS	2,515,814	577,848
Net Assets, Beginning of Year	58,264,748	57,686,900
Net Assets, End of Year	$ 60,780,562	$ 58,264,748

WEST BAY SANITARY DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 13,626,941	$ 10,939,754
Cash payments to suppliers for goods and services	(7,522,960)	(6,770,462)
Cash payments to employees for services	(1,930,264)	(2,202,339)
Payments of benefits on behalf of employees	(786,928)	(800,835)
Net cash provided by operating activities	3,386,789	1,166,118
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection fees	32,817	148,332
Purchase of capital assets	(664,117)	(3,023,342)
Net cash provided (used) by investing activities	(631,300)	(2,875,010)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales and redemption of investments	-	1,575,000
Investment income	108,491	235,663
Other income (expense)	622	(11,331)
Net Cash Provided by Investing Activities	109,113	1,799,332
NET INCREASE IN CASH AND EQUIVALENTS	2,864,602	90,440
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,222,731	11,132,291
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 14,087,333	$ 11,222,731

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010 AND 2009

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

	2010	2009
Operating income	$ 2,260,510	$ 17,864
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	819,867	753,854
(Increase) decrease in		
Accounts receivable	(110,997)	735,373
Prepaid expenses and other assets, deposits	12,226	(31,090)
Increase (decrease) in		
Accounts payable	373,116	(247,027)
Payroll and related liabilities	32,067	(67,357)
Construction deposits	-	4,501
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,386,789	$ 1,166,118
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Increase in equity in South Bayside System Authority	$ 149,878	$ 158,652

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

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 Authority 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.

B. Basis of Presentation, Measurement Focus 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 Puhlic 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 and all liabilities of the enterprise are recorded on its statement of net assets, 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 and all liabilities associated with their activity are included on their balance sheets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

The District applies all applicable pronouncements of the Governmental Accounting Standards Board (GASB) as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues aud 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.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Service Charges

Service charges are billed and collected on the District's behalf by the County of San Mateo in coujunction with the County's annual property tax billings. Majority of revenues are collected through the County system with only small amounts billed directly by the District.

D. 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.

E. Cash Equivalents

For cash flow purposes, cash and cash equivalents are defined as the book balance in demand deposits, as well as short-term investments with a maturity date within one year of the date acquired by the District.

F. Compensated Absences

Compensated absences include vacation leave and sick leave. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to the employees. A liability is recognized for that portion of accumulated sick leave that has been vested. At June 30, 2010 and 2009, the balance of accrued compensated absences was $259,763 and $238,414 respectively.

G. Capital Assets

The District defines capital assets as assets with an estimated useful life in excess of one year and individual cost of at least $1,000.

Contributed assets are recorded as capital assets at their fair market values at the date of donation and are depreciated over their estimated useful lives.

Capital assets are recorded at cost. These assets are depreciated using the straight-line method over estimated useful lives. The useful lives are as follows:

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

H. Connection Fees

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Use of Estimates

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

J. Changes in Accounting Principles

In July 2004, GASB issued GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions.* This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides the prospective implementation – that is, that employers set the beginning net OPEB obligation at zero at the beginning of the initial year. The District has implemented the provisions of this Statement for the fiscal year ended June 30, 2010. See footnote #11 for additional information and impact of implementation.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement requires that all intangible assets not specifically excluded by its scope provision be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets as applicable. The requirements of this Statement are effective for financial statements for period beginning after June 15, 2009. The District implemented the provisions of this Statement in the fiscal year ended June 30, 2010. Currently the District does not have any intangible assets; therefore the implementation of this Statement did not have any effect on the statement of net assets and statement of revenues and expenses and changes in net assets.

In June 2008, GASB issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This Statement addresses the recognition, measurements, and disclosure of information regarding derivative instruments entered into by state and local governments. The District implemented the provisions of this Statement in the fiscal year ended June 30, 2010 with no impact on the financial statements.

In December 2009, the GASB issued GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies.* The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. This Statement is effective for periods beginning after June 15, 2009. The District implemented provisions of this Statement in the fiscal year ended June 30, 2010 with no impact on the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. New Governmental Accounting and Reporting Standards

In February 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. The District is accounted for as an enterprise fund and therefore this statement does not apply.

In December 2009, the GASB issued GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. The provisions related to the use and reporting of the alternative measurement method are effective on the date of issuance. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. The District will be required to implement the provision of this Statement in fiscal year ending June 30, 2012, and does not believe it will have a significant impact on the financial statements.

In June 2010, the GASB issued GASB Statement No. 59, *Financial Instruments Omnibus.* The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. The District will be required to implement the provisions of this Statement in fiscal year ending June 30, 2011, and does not believe it will have a significant impact on the financial statements.

L. Subsequent Events

Management has considered subsequent events through November 30, 2010, the date which the financial statements were available to be issued.

NOTE 2 – CASH AND CASH EQUIVALENTS

A. Composition

The District's cash and cash equivalents consisted of the following at June 30:

	2010	2009
Cash on hand and in banks	$ 292,347	$ 361,237
California Local Agency Investment Fund (LAIF)	13,761,054	10,844,282
California Assets Management Program (CAMP)	32,832	16,112
Petty cash	1,100	1,100
Total cash and cash equivalents	$ 14,087,333	$ 11,222,731

B. Collateralization of Cash and Cash equivalents

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

C. LAIF

The District is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2010, these investments matured in an average of less than a year.

NOTE 3 – INVESTMENTS

A. Composition and Concentration of Credit Risk

All of the district's investments are carried at fair value. All were in U.S. Agencies at June 30, 2010. These investments included the following at June 30, 2010:

Issuer	Investment Type	Reported Amount
Fannie Mae	Federal Agency Bond/Note	$ 600,563

NOTE 3 - INVESTMENTS (CONTINUED)

B. Investments Authorized by the District

The District's investment policy and the California Government Code allow the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District, and approved percentages and maturities are not exceeded.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 Years	N/A	N/A	N/A
U.S. Treasury Obligations	5 Years	N/A	N/A	N/A
State of California Obligations	5 Years	N/A	N/A	N/A
California Local Agency Obligations	5 Years	N/A	N/A	N/A
U.S. Agency Obligations	5 Years	N/A	N/A	N/A
Bankers Acceptances	180 Days	N/A	40%	30%
Commercial Paper	270 Days	A-1/P-1/F-1	25%	10%
Negotiable Certificate of Deposit	5 Years	N/A	30%	30%
Repurchase Agreements	1 Year	N/A	N/A	N/A
Reverse Repurchase Agreements	92 Days	N/A	20%	N/A
Securities Lending Arrangements	92 Days	N/A	20%	N/A
Medium-Term Notes	5 Years	A	30%	N/A
Mutual Funds	N/A	N/A	20%	10%
Money Market Funds	N/A	N/A	20%	N/A
Collateralized Bank Deposits	5 Years	N/A	N/A	N/A
Mortgage-Pass Through Securities	5 Years	AA	20%	N/A
Time Deposits	5 Years	N/A	N/A	N/A
County Pooled Investments Funds	N/A	N/A	N/A	N/A
Joint Powers Authority Pool	N/A	N/A	N/A	N/A
Local Agency Investments Fund	N/A	N/A	N/A	N/A
California Assets Management Program (CAMP)	N/A	N/A	N/A	N/A

C. Credit Risk

Credit Risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.

This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2010, all of the District's investments, except LAIF, which is unrated, were rated AAA by Standard and Poor's.

NOTE 3 – INVESTMENTS (CONTINUED)

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District generally manages its interest rate risk by holding its investments to maturity. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity or earliest call date:

	0 to 6 Months
U.S. Agency Securities	$ 600,563

NOTE 4 – CAPITAL ASSETS

Changes in capital assets accounts are summarized below:

	Balance at June 30, 2009	Additions & Transfers, net	Retirement & Transfers	Balance at June 30, 2010
Capital assets not being depreciated:				
Land	$ 44,467	$ -	$ -	$ 44,467
Construction in progress	1,137,347	591,960	(1,327,760)	401,547
Total capital assets not being depreciated	1,181,814	591,960	(1,327,760)	446,014
Capital assets being depreciated:				
Pump stations	4,050,270	-	897,923	4,948,193
Fleet	1,231,715	2,264	(1,786)	1,232,193
Plant and administration facilities	1,369,394	36,299	(19,455)	1,386,238
Buildings	2,903,792	-	-	2,903,792
Flow equalization facilities	2,904,991	-	-	2,904,991
Subsurface lines	33,629,248	33,677	415,267	34,078,192
Total capital assets being depreciated:	46,089,410	72,240	1,291,949	47,453,599
Less accumulated depreciation for:				
Pump stations	(1,608,775)	(70,687)	14,569	(1,664,893)
Fleet	(802,782)	(114,766)	1,786	(915,762)
Plant and administrative facilities	(1,068,605)	(62,791)	19,373	(1,112,023)
Buildings	(390,785)	(83,886)	-	(474,671)
Flow equalization facilities	(1,641,228)	(89,735)	-	(1,730,963)
Subsurface lines	(12,288,213)	(398,002)	-	(12,686,215)
Total accumulated depreciation	(17,800,388)	(819,867)	35,728	(18,584,527)
Net capital assets being depreciated	$ 28,289,022	$ (747,627)	$ 1,327,677	$ 28,869,072
Capital assets, net	$ 29,470,836			$ 29,315,086

NOTE 4 – CAPITAL ASSETS (CONTINUED)

B. Construction in Progress

Construction in Progress at June 30, 2010 comprised:

		Expended to Date
Fair Oaks	$	10,598
Oak Grove		12,110
Sonoma Laurel Pope		78,598
Sausal Vista PS		27,245
Bay Laurel, College Park		226,432
Websie Design		3,900
GIS Map Update		7,440
Master Plan		35,224
Total	$	401,547

NOTE 5 – INVESTMENT IN THE SOUTH BAYSIDE SYSTEM AUTHORITY

The South Bayside System Authority (SBSA), created in 1975 under a Joint Exercise of Powers Agreement, constructed and operates a sewage treatment facility at Redwood Shores for the West Bay Sanitary District and the cities of Belmont, San Carlos, and Redwood City. At June 30, 2010 and 2009, the District had approximately 25% and 28% equity interest in SBSA, respectively, and accounts for the investment using the equity method. The Districts investment in SBSA at June 30, 2010 and 2009 was $17,484,319 and $17,334,438, respectively, as reflected on the statement of net assets. The increase in the investment for the years ended June 30, 2010 and 2009 were $149,878 and $158,652, respectively as reflected in the statement of revenues, expenses and changes in net assets.

SBSA's governing commission consist of four members, one appointed from each of the four participating agencies. Audited financial statements are available from SBSA, located at 1400 Radio Road, Redwood City, CA 94065, or on their website at http://www.rethinkwaste.org/finance.

Audited condensed financial information for SBSA is presented below for the year ended June 30, 2010 (most recent information available):

Total assets	$ 142,942,790
Total liabilities	72,564,790
Equity	69,928,000
Total revenues	31,422,763
Total expenses	23,673,980

NOTE 4 – CAPITAL ASSETS (CONTINUED)

B. Construction in Progress

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	Expended to Date
Fair Oaks	$ 10,598
Oak Grove	12,110
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Master Plan	35,224
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Total assets	$ 142,942,790
Total liabilities	72,564,790
Equity	69,928,000
Total revenues	31,422,763
Total expenses	23,673,980

NOTE 6 – MEMBERSHIP IN THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

On October 25, 1999, the South Bayside Waste Management Authority (SBWMA) was created under the Joint Exercise of Powers Agreement. The purpose of the JPA was to issue bonds to purchase a transfer station, which are repaid by franchise fees.

In fiscal 2004-05, SBWMA approved a 15 year contract with Allied Waste Management (formerly BFI) for the disposal of solid waste subject to all members of SBWMA approving their franchise collection agreements. As part of the agreement, Allied Waste Management agreed to make cash payments of $11.6 million to SBWMA over four years. The Board of SBWMA approved distributing these payments to each member once all members approve their franchise collection agreements. The District received total distributions of $128,540 over four years as of June 30, 2009. No distributions were received in fiscal year ended June 30, 2010.

NOTE 7 – NET ASSETS

A. Net Assets Classifications

Net Assets is the excess of all the District's assets over all its liabilities. The District's Net Assets are divided into three captions as described below:

Invested in Capital Assets describes the portion of Net Assets which is represented by the current net book value of the District's capital assets.

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

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

B. Board Designations

Designations are imposed by the District Board to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action.

Designated for **Future Capital Assets Replacement** is the portion of net assets to be used for new equipment and for emergency and scheduled replacement of capital facilities paid from connection fees.

Designated for **Operations** has been designated to cover approximately five months of operating expenses.

The Board has designated unrestricted net assets as follows:

For Future Capital Assets Replacement	$ 9,030,188
Invested in South Bay Systems Authority	17,484,316
Operations	4,950,972
Total designated unrestricted net assets	$ 31,465,476

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 pays an annual premium to CSRMA for insurance coverage. During the fiscal year ended June 30, 2010 the District contributed $159,633 to CSRMA for current year coverage.

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

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, 2009 (most recent information available):

Total assets	$ 29,209,229
Total liabilities	14,730,899
Equity	14,478,330
Total revenues	11,002,376
Total expenses	7,809,040

NOTE 10 – EMPLOYEE BENEFITS

A. CalPERS Miscellaneous Employees Plan

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 statue 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 2009-2010, the employer's required contribution rate for CalPERS was 9.081% 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. The District contributes on behalf of its employees 8% of their salary towards the employee's required CalPERS contribution.

Annual Pension Cost

For the Fiscal Year 2009-2010, retirement plan costs equaled contributions amounting to $315,733 for CalPERS. There were no beginning or current year originating net pension obligations for the plan. Required contributions for the plan were determined by CalPERS as part of the June 30, 2007 actuarial valuation for the District. CalPERS uses the Entry Age Normal Cost Method with contributions determined as a percentage of covered payroll, as well as apply asset smoothing to the market values of plan assets to determine their actuarial values. Significant actuarial assumptions of the plan include (a) an investment rate return of 7.75% net of administrative expenses, (b) projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for miscellaneous members, and (c) an annual inflation rate of 3.00%. CalPERS amortizes the actuarial values of unfunded accrued liabilities (or excess assets) as a level percentage of assumed future payroll on a closed basis. The amortization periods differ with respect to the plan. CalPERS expects to be fully amortized as of June 30, 2023, with 13 years remaining.

NOTE 10 – EMPLOYEE BENEFITS (CONTINUED)

Trend Information

Three-year trend information of annual pension costs is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	$ 350,503	100%	$ -
6/30/2009	348,735	100%	-
6/30/2010	315,733	100%	-

NOTE 11 – POST EMPLOYMENT HEALTH CARE 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: The District's annual required contribution of the employer (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a closed period of 30 years. The current ARC is $16,400. The plan members receiving benefits currently don't make any contributions.

Annual OPEB Cost: For 2010, the District's annual OPEB costs (expense) was $16,400 and was equal to the ARC. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for 2010 are as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
6/30/2010	$ 16,400	$ 3,780	23%	$ 12,620

GASB Statement No. 45 was implemented during the current year and applied on a prospective basis. The information for the preceding two years is unavailable.

NOTE 11 – POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amouuts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment. 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 that shows 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 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 member to the point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calcnlations.

In the March 1, 2010 actuarial valuation, the Projected Unit Credit method was used. The actuarial assumptions included a 5 percent rate of return and an increase in covered payroll of 3 percent per year. Both rates include a 3 percent inflation assumption. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. PERS minimum employer contribution is expected to increase 4 percent per year.

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES

The District is contingently liable in connection with claims and contracts arising in the normal course of its activities. 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 FUNDING PROGRESS FOR THE RETIREE HEALTH BENEFIT PLAN
JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
March 1, 2010	$ -	$ 137,900	$ 137,900	0%	$1,952,200	7.1%

SUPPLEMENTARY INFORMATION

WEST BAY SANITARY DISTRICT

BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variances - Favorable (Unfavorable) Final to Actual
OPERATING REVENUE				
Service charges	$10,396,038	$10,396,038	$13,642,716	$ 3,246,678
Flow equalization uses	20,000	20,000	54,000	34,000
Permit and inspection fees and other services	45,000	45,000	34,031	(10,969)
Other operating revenues	10,000	10,000	7,191	(2,809)
Total Operating Revenues	10,471,038	10,471,038	13,737,938	3,266,900
OPERATING EXPENSES				
Sewage treatment - South Bayside System Authority	5,941,667	5,941,667	6,516,047	(574,380)
Sewage collection	2,769,980	2,769,980	2,526,053	243,927
General and administration	1,923,232	1,923,232	1,615,461	307,771
Depreciation [1]	-	-	819,867	(819,867)
Total Operating Expenses	10,634,879	10,634,879	11,477,428	(842,549)
OPERATING INCOME (LOSS), NET	(163,841)	(163,841)	2,260,510	2,424,351
NON-OPERATING REVENUE				
Investment income	198,232	198,232	71,987	(126,245)
Other non-operating revenue (expense), net	4,000	4,000	622	(3,378)
Increase of Equity in South Bayside System Authority [1]	-	-	149,878	149,878
Total nonoperating revenue	202,232	202,232	222,487	20,255
Income before contributions and transfers	38,391	38,391	2,482,997	2,444,606
Capital contributions - connection fees	225,000	225,000	32,817	(192,183)
Net income (Loss)	263,391	263,391	2,515,814	2,252,423
Net Assets, Beginning of Year	58,264,748	58,264,748	58,264,748	-
Net Assets, End of Year	$58,528,139	$58,528,139	$60,780,562	$ 2,252,423

[1] The District does not budget for these amounts