



Serving Our Community Since 1902

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

PHIL SCOTT
District Manager

December 12, 2018

MEMORANDUM

TO: West Bay Sanitary District's Customers & Owners

FROM: West Bay Sanitary District Board of Directors

RE: Financial Audit – Fiscal Year 2017-18

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, 2017 and June 30, 2018. We are pleased that the auditors found:

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

We welcome your comments or questions.

WBSD Board of Directors:

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

WEST BAY SANITARY DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2018

* * *



CHAVAN & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE, SUITE 180
SAN JOSE, CA 95129

West Bay Sanitary District

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the West Bay Sanitary District (the "District"), as of and for the year ended June 30, 2018, 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, 2018, 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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The District currently funds this obligation on a pay-as-you go basis and through contributions to a trust. The District anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of pension contributions - CalPERS, schedule of proportionate share of net pension liability, and schedule of OPEB contributions, and schedule of changes in net OPEB liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2018 on our consideration of the District's internal control over financial reporting



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

C & A LLP

November 7, 2018
San Jose, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2018

The West Bay Sanitary District (the District) has issued its financial statements for the fiscal year ended June 30, 2018, 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 \$7,088,946 or 7%.
- The District's operating revenue increased by \$1,867,834 or 7.3%.
- The District's operating expenses increased by \$1,787,881 or 9.5%.

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, 2018

NET POSITION

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

Table 1 - Summary of Net Position

	2018	2017	Dollar Change	Percent Change
Assets				
Current & Other Assets	\$ 67,570,964	\$ 60,289,418	\$ 7,281,546	12.1%
Capital Assets	51,930,419	48,382,995	3,547,424	7.3%
Total Assets	\$ 119,501,383	\$ 108,672,413	\$ 10,828,970	10.0%
Deferred Outflows of Resources	\$ 1,503,608	\$ 1,083,877	\$ 419,731	38.7%
Liabilities				
Current Liabilities	\$ 6,230,166	\$ 3,624,254	\$ 2,605,912	71.9%
Noncurrent Liabilities	6,248,926	4,507,639	1,741,287	38.6%
Total Liabilities	\$ 12,479,092	\$ 8,131,893	\$ 4,347,199	53.5%
Deferred Inflows of Resources	\$ 221,220	\$ 408,664	\$ (187,444)	-45.9%
Net Position				
Net Investment in Capital Assets	\$ 50,985,451	\$ 48,382,995	\$ 2,602,456	5.4%
Unrestricted:				
Capital fund budget	17,546,817	14,531,267	3,015,550	20.8%
Invested in SVCW	13,033,198	13,589,774	(556,576)	-4.1%
Operations reserve	8,131,426	7,923,244	208,182	2.6%
Unreserved	18,607,787	16,788,453	1,819,334	10.8%
Total Net Position	\$ 108,304,679	\$ 101,215,733	\$ 7,088,946	7.0%

As seen above, the District's total net position increased by \$7,088,946, or 7%, from fiscal year 2016-17 to 2017-18. The District's current and other assets increased by \$7,281,546. Capital assets, net of depreciation, increased by \$3,547,424 from capital spending totaling \$5,420,789. This includes Capital expenditures of \$3,424,703 for capital equipment purchases and replacement of sewer infrastructure, expenditures of \$1,762,271 for the SHGCC Recycled Water Facility and \$233,815 for the Bay Front Resource Recovery project. Total liabilities increased by \$4,347,199 primarily due to increases to the District's net pension obligation of \$691,869, state revolving fund loan disbursements of \$987,014 and accounts payable of \$2,572,666.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2018

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

Table 2 - Change in Net Position				
	2018	2017	Dollar Change	Percent Change
Revenues				
Operating Revenue	\$ 27,444,719	\$ 25,576,885	\$ 1,867,834	7.3%
Operating Expenses				
Sewage treatment	12,177,636	10,294,299	1,883,337	18.3%
Sewage collection and general administration	6,648,196	6,960,005	(311,809)	-4.5%
Depreciation	1,868,991	1,652,638	216,353	13.1%
Total Operating Expenses	20,694,823	18,906,942	1,787,881	9.5%
Operating Income (Loss)	6,749,896	6,669,943	79,953	1.2%
Nonoperating Revenue (Expense)	455,289	696,962	(241,673)	-34.7%
Increase (decrease) of equity in SVCW	(556,576)	328,526	(885,102)	-269.4%
Connection Fees	570,181	1,912,132	(1,341,951)	-70.2%
Change in Net Position Current	7,218,790	9,607,563	(2,388,773)	-24.9%
Prior Period Adjustments to Beginning Net Position	(129,844)	-	(129,844)	-100.0%
Total Change in Net Position	\$ 7,088,946	\$ 9,607,563	\$ (2,518,617)	-26.2%

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 \$7,088,946 in Table 1 was the result of an increase in operating revenues, connection fees, and operating expenses. Operating revenues increased by \$1,867,834 (7.3%) resulting primarily from the 4.5% service fee rate increase as well as increased number of residential accounts within the District resulting from a number of multifamily developments that came online during the year. Connection fees decreased \$1,341,951 from the prior year as a result of new connection fees returning to more normal levels following the unusually high volume of new connections that originated in the prior year.

Total operating expenses, which include sewage treatment, collection, general administration, and depreciation, increased \$1,787,881 (9.5%) over the prior year. The most significant impact in operating expenses came from sewage treatment costs totaling \$12,177,636. 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, 2018, the District's share was approximately 15.78% which resulted in a 18.3% increase in expenses over the prior year. This was primarily due to the new SVCW debt that was issued during the 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.

A prior period adjustment of \$129,844 was made to Beginning Net Position. This represents required adjustments to prior years to report the net OPEB liability resulting from implementation of GASB 75 in FY2017-18.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2018

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, 2018.

Table 3 - Budget Summary

	Budget	Actual	Variance	Percent Variance
Revenues				
Operating Revenue	\$ 26,247,032	\$ 27,444,719	\$ 1,197,687	4.6%
Operating Expenses				
Sewage treatment	12,296,950	12,177,636	119,314	1.0%
Sewage collection and general administration	7,128,473	6,648,196	480,277	7.2%
Depreciation	1,800,000	1,868,991	(68,991)	-3.7%
Total Operating Expenses	21,225,423	20,694,823	530,600	2.6%
Operating Income (Loss)	5,021,609	6,749,896	1,728,287	34.4%
Nonoperating Revenue (Expense)	101,000	455,289	354,289	77.8%
Increase (Decrease) of Equity in SVCW	-	(556,576)	(556,576)	-100.0%
Connection Fees	500,000	570,181	70,181	12.3%
Change in Net Position	\$ 5,622,609	\$ 7,218,790	\$ 1,596,181	28.4%

The District reported \$1,197,687 more in operating revenue than budgeted primarily resulting from higher sewer service fees collected. Total operating expenses were \$530,600 less than budgeted and resulted from favorable variances from a combination of various operating and nonoperating expenses.

Table 4 summarizes the capital budget for the fiscal year ended June 30, 2018:

Table 4 - Capital Fund Budget Summary

	Budget	Actual	Variance	Percent Variance
Transfer from Operations	\$ 6,847,609	\$ 9,060,355	\$ 2,212,746	32%
Capital Expenditures	(9,509,500)	(3,424,703)	6,084,797	178%
Recycled Water Facility SHGCC	-	(1,762,271)	(1,762,271)	-100%
Bay Front Resource Recovery	-	(233,815)	(233,815)	-100%
Connection Charges	500,000	570,181	70,181	14%
Interest Income	75,000	75,803	803	1%
Rate Stabilization Reserve	-	(1,000,000)	(1,000,000)	-100%
Equipment Replacement Reserve	(270,000)	(270,000)	-	0%
Change in capital Asset Fund	(2,356,891)	3,015,550	5,372,441	178%
Beginning Fund Balance	15,470,817	14,531,267	(939,550)	-6%
Ending Fund Balance	\$ 13,113,926	\$ 17,546,817	\$ 4,432,891	34%

Capital Expenditures of \$3,424,703 to acquire capital equipment and replace or rehabilitate sewer infrastructure were \$6,084,797 less than budget. District expenditures for the recycled water facility projects were \$1,762,271 for the SHGCC Recycled Water Facility and \$233,815 for the Bay Front Resource Recovery. The District also set-aside \$270,000 for equipment replacements and added \$1,000,000 to the Rate Stabilization Reserve. Due to the favorable variances in total revenue and total expense to budget, the District was able to transfer \$9,060,355 into the capital asset fund at year end which contributed to an ending Capital Asset Fund balance of \$17,546,817.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2018

CAPITAL ASSETS

Table 5 shows a summary of capital assets owned by the District as of June 30, 2018.

Table 5 - Summary of Capital Assets Net of Depreciation

	2018	2017	Dollar Change	Percent Change
Land	\$ 44,467	\$ 44,467	\$ -	0.00%
Construction in Progress	3,690,850	4,302,952	(612,102)	-14.23%
Pump stations	5,475,603	5,600,218	(124,615)	-2.23%
Fleet	882,219	894,948	(12,729)	-1.42%
Plant and administration facilities	400,761	373,766	26,995	7.22%
Buildings	1,797,458	1,881,760	(84,302)	-4.48%
Flow equalization facilities	474,527	547,681	(73,154)	-13.36%
Subsurface lines	39,164,534	34,737,203	4,427,331	12.75%
Net Capital Assets	<u>\$ 51,930,419</u>	<u>\$ 48,382,995</u>	<u>\$ 3,547,424</u>	<u>7.33%</u>

ECONOMIC FACTORS

The District is governed in part by provisions of the California Constitution that require the District to set rates that cover only the costs of operation, maintenance and recurring capital replacement (OM&R). The District is not subject to general economic conditions such as increases or declines in property tax values or other types of revenues that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of OM&R plus any increments for known or anticipated changes in program costs. As in previous years, the District has maintained operating costs by carefully managing every expense.

CONTACTING THE DISTRICT

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

BASIC FINANCIAL STATEMENTS

West Bay Sanitary District
Statement of Net Position
June 30, 2018
(With Comparative Totals as of June 30, 2017)

Assets	2018	2017
Current Assets:		
Cash and cash equivalents	\$ 27,032,327	\$ 20,181,203
Restricted cash and investments	807,350	-
Accounts receivable	368,390	184,381
Interest receivable	107,450	182,784
Prepaid expenses and other current assets	28,738	35,995
Total Current Assets	<u>28,344,255</u>	<u>20,584,363</u>
Noncurrent Assets:		
Investments	26,193,511	26,031,081
Net OPEB asset	-	84,200
Investment in Silicon Valley Clean Water	13,033,198	13,589,774
Capital assets:		
Non-depreciable	3,735,317	4,347,419
Depreciable net of accumulated depreciation	48,195,102	44,035,576
Total Capital Assets - Net	<u>51,930,419</u>	<u>48,382,995</u>
Total Noncurrent Assets - Net	<u>91,157,128</u>	<u>88,088,050</u>
Total Assets	<u>\$ 119,501,383</u>	<u>\$ 108,672,413</u>
 Deferred Outflows of Resources		
OPEB adjustments	7,860	\$ -
Pension adjustments	1,495,748	1,083,877
Total Deferred Outflows of Resources	<u>\$ 1,503,608</u>	<u>\$ 1,083,877</u>
 Liabilities		
Current Liabilities:		
Accounts payable	\$ 6,011,904	\$ 3,439,238
Payroll and related liabilities	9,673	4,035
Construction deposits	8,672	9,381
Compensated absences payable - current	199,917	171,600
Total Current Liabilities	<u>6,230,166</u>	<u>3,624,254</u>
Noncurrent Liabilities:		
Net OPEB liability	58,399	-
Net pension obligation	5,120,961	4,429,092
State Revolving Fund Loan	987,014	-
Compensated absences payable - noncurrent	82,552	78,547
Total Noncurrent Liabilities	<u>6,248,926</u>	<u>4,507,639</u>
Total Liabilities	<u>\$ 12,479,092</u>	<u>\$ 8,131,893</u>
 Deferred Inflows of Resources		
OPEB adjustments	\$ 8,187	\$ -
Pension adjustments	213,033	408,664
Total Deferred Inflows of Resources	<u>\$ 221,220</u>	<u>\$ 408,664</u>
 Net Position		
Net Investment in Capital Assets	\$ 50,943,405	\$ 48,382,995
Unrestricted:		
Capital fund budget	17,546,817	14,531,267
Invested in Silicon Valley Clean Water	13,033,198	13,589,774
Operations reserve	8,131,426	7,923,244
Unreserved	18,649,833	16,788,453
Total Net Position	<u>\$ 108,304,679</u>	<u>\$ 101,215,733</u>

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

West Bay Sanitary District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018
(With Comparative Totals for the Fiscal Year Ended June 30, 2017)

	2018	2017
Operating Revenues:		
Service charges	\$ 26,391,698	\$ 24,483,213
Flow equalization uses	327,574	315,186
Permit and inspection fees and other services	293,578	210,870
Other operating revenues	431,869	567,616
Total operating revenues	<u>27,444,719</u>	<u>25,576,885</u>
Operating Expenses:		
Sewage treatment	12,177,636	10,294,299
Sewage collection and general administration:		
Salaries and benefits	4,773,639	5,231,091
Materials and supplies	416,494	335,092
Insurance	98,655	84,360
Contract services	357,048	283,662
Professional services	371,582	383,741
Repairs and maintenance	219,895	255,891
Utilities	149,927	129,147
Other operating expenses	260,956	257,021
Total sewage collection and general administration	<u>6,648,196</u>	<u>6,960,005</u>
Depreciation	1,868,991	1,652,638
Total operating expenses	<u>20,694,823</u>	<u>18,906,942</u>
Operating Income (Loss)	<u>6,749,896</u>	<u>6,669,943</u>
Nonoperating Revenues (Expenses):		
Investment income	288,205	168,839
Increase (decrease) of equity in Silicon Valley Clean Water	(556,576)	328,526
Other nonoperating revenues	167,084	528,123
Total nonoperating revenues (expenses)	<u>(101,287)</u>	<u>1,025,488</u>
Income before contributions	6,648,609	7,695,431
Capital contributions - connection fees	570,181	1,912,132
Change in Net Position	<u>7,218,790</u>	<u>9,607,563</u>
Beginning Net Position	101,215,733	91,608,170
Prior Period Adjustment - GASB 75	(129,844)	-
Beginning Net Position - As Adjusted	<u>101,085,889</u>	<u>91,608,170</u>
Ending Net Position	<u>\$ 108,304,679</u>	<u>\$ 101,215,733</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, 2018
(With Comparative Totals for the Fiscal Year Ended June 30, 2017)

	2018	2017
Cash Flows from Operating Activities:		
Cash received from customers	\$ 27,430,745	\$ 26,954,229
Cash payments to suppliers for goods and services	(11,471,943)	(11,038,524)
Cash payments to employees for services	(3,260,154)	(3,186,464)
Cash payments of benefits on behalf of employees	(1,248,559)	(1,619,838)
Net Cash Provided (Used) by Operating Activities	<u>11,450,089</u>	<u>11,109,403</u>
Cash Flows from Capital and Related Financing Activities:		
Cash received from connection fees	570,181	1,912,132
Cash received from the State Revolving Fund loan	987,014	-
Cash received on the sale of capital assets	-	8,213
Purchases and construction of capital assets	(5,416,415)	(5,600,818)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,859,220)</u>	<u>(3,680,473)</u>
Cash Flows from Investing Activities:		
Transfers to investment accounts	(4,291,258)	(7,797,300)
Transfers from investment accounts	3,538,849	-
Investment income	12,664	106,605
Net Cash Provided (Used) by Investing Activities	<u>(739,745)</u>	<u>(7,690,695)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	6,851,124	(261,765)
Cash and Cash Equivalents Beginning	20,181,203	20,442,968
Cash and Cash Equivalents Ending	<u>\$ 27,032,327</u>	<u>\$ 20,181,203</u>
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:		
Operating Income (Loss)	\$ 6,749,896	\$ 6,669,943
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,868,991	1,652,638
Net change in:		
Accounts receivable	(13,265)	1,377,344
Prepaid expenses and other current assets	7,257	(3,815)
Deposits	(709)	-
Net OPEB asset	84,200	(84,200)
Deferred outflows of resources	(419,731)	(310,288)
Accounts payable	2,572,666	988,504
Payroll and related liabilities	5,638	(5,227)
Net OPEB liability	58,399	(119,049)
Net pension obligation	691,869	904,101
Deferred inflows of resources	(187,444)	72,216
Compensated absences	32,322	(32,764)
Net Cash Provided (Used) by Operating Activities	<u>\$ 11,450,089</u>	<u>\$ 11,109,403</u>

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

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

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 Statement No. 62, *Codification of*

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Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 62 incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 also amends GASB 62 and AICPA Pronouncements paragraphs 64, 74, and 82. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The sources of authoritative GAAP are categorized in descending order of authority as follows:

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

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

Statement of Net Position

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

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation
- 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.

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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 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.

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

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structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

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

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

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

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

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, 2018.

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.

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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.

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Accounting Estimates

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

Subsequent Events

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

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Implemented New Accounting Pronouncements

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The provisions in Statement 75 are effective for the fiscal year ended June 30, 2018. 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 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.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

As of June 30, 2018, according to GASB 75, the District's net OPEB liability must be recognized. Therefore, the previous net OPEB liability as of June 30, 2017 in the amount of \$129,844 has been shown as a restatement of net position in the Statement of Activities as a separate line item.

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GASB Statement No. 86, Certain Debt Extinguishment Issues

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. This statement did not have an impact on the District's financial statements.

Upcoming New Accounting Pronouncements

GASB Statement No. 83, Certain Asset Retirement Obligations

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 84, Fiduciary Activities

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB issued Statement No. 87, Leases

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease

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liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the fiscal year ending June 30, 2021. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

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

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

NOTE 3 - CASH AND INVESTMENTS

The District's cash and investments consisted of the following as of June 30, 2018 and 2017:

Description	Rating	Fair Value June 30, 2018	Maturities		Concen- trations	Fair Value June 30, 2017
			12 Months or Less	13 - 60 Months		
Bank of the West Investments:						
Fixed Income	AA+/BBB	\$ 26,546,099	\$ 6,626,735	\$ 19,919,364	49.13%	\$ 26,031,081
Cash	N/A	454,762	454,762	-	0.84%	1,361,849
Total Bank of West Investments	AAA	27,000,861	7,081,497	19,919,364	49.97%	27,392,930
Cash and Cash Equivalents:						
Cash on hand and in banks	N/A	2,211,661	2,211,661	-	4.09%	2,084,503
Money Market	N/A	334,863	334,863	-	0.62%	13,704,414
LAIF	N/A	24,485,203	24,485,203	-	45.32%	3,029,837
Petty Cash	N/A	600	600	-	0.00%	600
Total Cash and Cash Equivalents		27,032,327	27,032,327	-	50.03%	18,819,354
Total Cash and Investments		\$ 54,033,188	\$ 34,113,824	\$ 19,919,364	100.00%	\$ 46,212,284

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Cash Deposits

As of June 30, 2018, the District's cash deposits exceeded the Federal Deposit Insurance Corporation ("FDIC") insured limits by \$2,093,533, but had little exposure since they were collateralized as noted in the *Collateral and Categorization Requirements* disclosure below. 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.

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

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

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Fair Value Measurements

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

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

All of the Districts investments were valued using Level 1 and 2 inputs as noted above.

Local Agency Investment Fund

LAIF allows local agencies such as the District to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local District Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2018, was approximately \$88.8 billion of that amount, 99.17% was invested in non-derivative financial products and .83% was invested in structured notes and asset-backed securities. The average maturity for the investment in LAIF was 193 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. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due to failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be

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held by a third party bank or trust department under the terms of a custody or trustee agreement. None of the District's investments were subject to custodial credit risk.

- *Concentration of Credit Risk* - See the chart above for the District's limitations on the amount that can be invested in any one issuer.

NOTE 4 - INVESTMENT IN SILICON VALLEY CLEAN WATER

Silicon Valley Clean Water (SVCW), formerly 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, 2018 and 2017, the District had approximately 15.78% equity interest in SVCW, which is reported using the equity method of accounting. The District's investment in SVCW at June 30, 2018 and 2017 was \$13,033,198 and \$13,589,774, respectively, as reflected on the statement of net position. The change in the investment for the years ended June 30, 2018 and 2017 was an increase of \$556,576 and an increase of \$328,526, respectively, as reflected in the statement of revenues, expenses and changes in net position. The 2018 changes in the District's equity share was mostly attributed to the fact that not all members share in the long-term debt, only the net position, or equity, of the participating members decreases upon the issuance of new debt, while the "non-debt" member's net position increases. In addition, the non-debt members contribute more cash into the JPA than other members to cover their share of capital improvements, which increases the equity share of non-debt members and decreases the share of other participating agencies.

SVCW's governing commission consists of four members, one appointed from each of the four participating agencies. SVCW's condensed audited financial information is presented below for the year ended June 30, 2017, (most recent information available):

	<u>June 30, 2017</u>
Total Assets	\$ 304,774,429
Deferred Outflows of Resources	6,969,339
Total Liabilities	225,872,024
Deferred Inflows of Resources	5,832,072
Total Equity	80,039,672
Total Revenues	41,887,031
Total Expenditures	41,011,248

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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, 2018:

Description	Balance June 30, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Non-depreciable Capital Assets:					
Land	\$ 44,467	\$ -	\$ -	\$ -	\$ 44,467
Construction in progress	4,302,952	4,996,694	-	(5,608,796)	3,690,850
Total non-depreciable capital assets	4,347,419	4,996,694	-	(5,608,796)	3,735,317
Depreciable Capital Assets:					
Pump stations	7,567,039	56,315	-	-	7,623,354
Fleet	2,428,795	156,595	(14,309)	-	2,571,081
Plant and administration facilities	1,600,942	91,334	(30,232)	-	1,662,044
Buildings	2,981,893	8,100	-	-	2,989,993
Flow equalization facilities	2,901,072	17,666	(34,019)	-	2,884,719
Subsurface lines	52,695,818	89,710	-	5,608,796	58,394,324
Total depreciable capital assets	70,175,559	419,720	(78,560)	5,608,796	76,125,515
Less accumulated depreciation for:					
Pump stations	(1,966,821)	(180,930)	-	-	(2,147,751)
Fleet	(1,533,847)	(169,324)	14,309	-	(1,688,862)
Plant and administration facilities	(1,227,176)	(64,339)	30,232	-	(1,261,283)
Buildings	(1,100,133)	(92,402)	-	-	(1,192,535)
Flow equalization facilities	(2,353,391)	(90,820)	34,019	-	(2,410,192)
Subsurface lines	(17,958,615)	(1,271,175)	-	-	(19,229,790)
Total accumulated depreciation	(26,139,983)	(1,868,990)	78,560	-	(27,930,413)
Total depreciable capital assets - net	44,035,576	(1,449,270)	-	5,608,796	48,195,102
Total capital assets - net	\$ 48,382,995	\$ 3,547,424	\$ -	\$ -	\$ 51,930,419

Depreciation expense for the year ended June 30, 2018 and 2017 was \$1,868,991 and \$1,652,638, respectively.

Construction in progress consisted of the following as of June 30, 2018:

Project	Balance June 30, 2018
Fair Oaks	\$ 10,598
Oak Grove	12,110
Easement Design Projects	78,598
FEF Metal Storage Building	51,416
Belle Haven III	318,930
Levee Design	19,819
Emergency Repairs to Alpine Rd	26,050
Emergency Repairs to Alpine Rd	1,667
RMC Water and Environment - SHGCC	2,916,652
Bay Front Resource Recovery	248,011
Other projects	7,000
Total Construction in Progress	\$ 3,690,850

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NOTE 6 - NONCURRENT LIABILITIES

The District's noncurrent liabilities consisted of the following as of June 30, 2018:

Description	Balance			Balance June 30, 2018	Due Within One Year
	July 01, 2017	Additions	Deductions		
Net OPEB Liability	\$ -	\$ 58,399	\$ -	\$ 58,399	\$ -
Net Pension Obligation	4,429,092	691,869	-	5,120,961	-
State Revolving Fund Loan	-	987,014	-	987,014	-
Compensated Absences	250,147	32,322	-	282,469	199,917
Total Noncurrent Liabilities	\$ 4,679,239	\$ 1,769,604	\$ -	\$ 6,448,843	\$ 199,917

State Revolving Fund Loan

The District has entered into a \$22,595,000 agreement with the State Water Resources Control Board (SWRCB or State Revolving Fund Loan) to finance the Sharon Heights Recycled Water project. The funding will be disbursed through a grant of \$5,259,800 and a loan of \$17,335,200. The loan funds together with all accrued interest will be repaid in annual installments commencing one year after the completion of construction which was estimated to be August 14, 2020. The SWRCB reimbursed the Authority for project-related expenditures as incurred, and the outstanding liability was \$987,017 as of June 30, 2018. The following summarized the total estimated debt service to be repaid by June 30, 2050:

Fiscal Year Ending June 30:	Principal	Interest	Total
2019	\$ -	\$ -	\$ -
2020	-	-	-
2021	384,941	103,898	488,839
2022	523,508	152,033	675,541
2023	511,273	164,268	675,541
2024-28	2,634,088	743,616	3,377,704
2029-33	2,768,453	609,251	3,377,704
2034-38	2,909,672	468,032	3,377,704
2039-43	3,058,094	319,610	3,377,704
2044-48	3,214,088	163,616	3,377,704
2049-50	1,331,082	19,999	1,351,081
Total Debt Service	\$ 17,335,199	\$ 2,744,323	\$ 20,079,522

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NOTE 7 - BOARD COMMITMENTS OF NET POSITION

Commitments are imposed by the District’s Board to reflect future spending plans or concerns about the availability of future resources. Commitments may be modified, amended or removed by Board action. Commitments for future capital assets replacement is the portion of net position to be used for new equipment and for emergency and scheduled replacement of capital facilities paid from connection fees. Commitments for operations have been set-aside to reserve approximately five months of operating expenses. The Board committed the following unrestricted net position as of June 30, 2018:

Description	Balance
Capital fund budget	\$ 17,546,817
Invested in Silicon Valley Clean Water	13,033,198
Operations	8,131,426
Total Committed Net Unrestricted Position	\$ 38,711,441

NOTE 8 - DEFERRED COMPENSATION PLAN

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

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

NOTE 9 - RISK MANAGEMENT

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

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

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

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, 2017 (most recent information available):

	June 30, 2018
Total Assets	\$ 28,419,707
Total Liabilities	17,241,037
Total Equity	11,178,670
Total Revenues	11,166,523
Total Expenditures	11,588,811

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 5 years of service for PEPRA. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law. The Plan' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous	
	Classic	PEPRA
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	8.000%	6.250%
Employee contribution rates per MOU	10.101%	7.848%
Required employer contribution rates	17.282%	6.533%
Employer contribution rates per MOU	15.183%	6.533%

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

Employees Covered - At June 30, 2018, the following employees were covered by the benefit terms for the Plan:

	Miscellaneous
Active	27
Transferred	6
Separated	6
Retired	27
Total	66

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, 2018, the District's contributions were \$413,896.

During the fiscal year, the Classic employees contributed 10.101% and the PEPRA employees contributed 7.848% of their salary toward the combined required contribution of 25.282% for the Classic plan and 14.381% for PEPRA, leaving the District's total contribution at 15.183% for the Classic plan and 6.533% for PEPRA in 2018. Total contributions made by employees over the last three fiscal years ended June 30, 2018, 2017 and 2016 were \$267,442, \$230,583 and \$184,846, respectively.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of \$5,120,961. 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, 2017, 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, 2016 rolled forward to June 30, 2017 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, 2017 and 2018 was as follows:

	Miscellaneous
Proportion - June 30, 2017	0.12750%
Proportion - June 30, 2018	0.12991%
Change - Increase/(Decrease)	0.00241%

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$1,018,841.

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 713,129	\$ -
Differences between Expected and Actual Experience	-	82,919
Differences between Projected and Actual Investment Earnings	174,593	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	130,114
Change in Employer's Proportion	194,129	-
Pension Contributions Made Subsequent to Measurement Date	413,896	-
Total	\$ 1,495,747	\$ 213,033

The District reported \$413,896 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, 2019.

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

Fiscal Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources
2019	\$ 269,498
2020	437,634
2021	265,346
2022	(103,659)
2023	-
Thereafter	-
Total	\$ 868,819

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Varies by age and service

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

(3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 7,665,676
Current	7.15%
Net Pension Liability	\$ 5,120,961
1% Increase	8.15%
Net Pension Liability	\$ 3,013,381

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

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Benefits Provided

The District contributes toward post-retirement benefits for employees who retire under PERS after age 50 and choose coverage under CalPERS medical plans. The District pays the amount of the PEMHCA minimum contribution, which is \$128 per month in 2017, \$133 in 2018, and is expected to increase in future years. Payments are made for the lifetime of the retired employee and covered dependent spouse (or domestic partner), provided that they remain covered under CalPERS medical plans. Retirees are required to pay the balance of the monthly medical premiums. The District does not provide any other post-retirement health and welfare benefits.

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

Employees Covered by Benefit Terms

At June 30, 2017 (the valuation date), the benefit terms covered the following employees:

Active employees	28
Retired former employees	<u>4</u>
Total employees	<u><u>32</u></u>

Contributions

The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions during the year were \$7,860. Total contributions included in the measurement period were \$232,903. The actuarially determined contribution for the measurement period was \$7,860. The District's contributions were .28% of payroll during the fiscal year ended June 30, 2018. Employees are not required to contribute to the plan.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

Actuarial Assumptions

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

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2017
Actuarial Cost Method:	Entry-Age Normal
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.75%
Payroll Increases	3.00%
Investment Rate of Return	6.75%
Mortality	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous"
Retirement	2014 CalPERS OPEB Assumptions Model for miscellaneous public employees with 2.5% at 55 retirement
Service Requirement	2014 CalPERS OPEB Assumptions Model for miscellaneous public employees with 2.5% at 55 retirement

Discount Rate

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

Long-Term Expected Rate of Return

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

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

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

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

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 (valuation date) for the fiscal year ended June 30, 2018 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2018:

Fiscal Year Ended June 30, 2018	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 278,553	\$ -	\$ 278,553
Service cost	6,513	-	6,513
Interest in Total OPEB Liability	16,476	-	16,476
Employer contributions	-	232,909	(232,909)
Actual investment income	-	10,234	(10,234)
Benefit payments	(7,909)	(7,909)	-
Net changes	15,080	235,234	(220,154)
Balance at June 30, 2018	\$ 293,633	\$ 235,234	\$ 58,399

Covered Payroll at Measurement Date	\$ 2,799,216
Total OPEB Liability as a % of covered payroll	10.49%
Plan Fid. Net Position as a % of Total OPEB Liability	80.11%
Service cost as a % of covered payroll	0.23%
Net OPEB Liability as a % of covered payroll	2.09%

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

Deferred Inflows and Outflows of Resources

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected earnings	\$ -	\$ 8,187
OPEB contribution subsequent to measurement date	7,860	-
Totals	\$ 7,860	\$ 8,187

Of the total amount reported as deferred outflows of resources related to OPEB, \$7,860 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2019	\$ (2,047)
2020	(2,047)
2021	(2,047)
2022	(2,047)
2023	-
Thereafter	-
Total	\$ (8,187)

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2018:

Service cost	\$ 6,513
Interest in TOL	16,476
Difference between actual and expected earnings	(2,047)
OPEB Expense	\$ 20,942

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2018:

Net OPEB liability ending	\$	58,399
Net OPEB liability beginning		(278,553)
Change in net OPEB liability		(220,154)
Changes in deferred inflows		8,187
Employer contributions		232,909
OPEB Expense	\$	20,942

Sensitivity to Changes in the Discount Rate

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

	Discount Rate		
	5%	6%	7%
	(1% Decrease)	(Current Rate)	(1% Increase)
Net OPEB Liability	\$ 100,454	\$ 58,399	\$ 24,354

Sensitivity to Changes in the Healthcare Cost Trend Rates

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

	Trend Rate		
	4% to 5%		
	(1% Decrease)	(Current Rate)	(1% Increase)
Net OPEB Liability	\$ 23,388	\$ 58,399	\$ 101,679

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

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

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

West Bay Sanitary District
Notes to Financial Statements
June 30, 2018

Through June 30, 2018, total costs for consultants, attorneys, studies, applications and reports have totaled \$3,293,308. The cost sharing breakdown for these expenditures is as follows:

	Cost 1 Phase	Design/Build Phase
Cost	\$ 588,272	\$ 2,705,036
SHGCC (Club)	\$ 323,000	\$ -
SRF Grant	\$ 74,477	\$ -
SRF Loan	\$ -	\$ 987,014

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

REQUIRED SUPPLEMENTARY INFORMATION

West Bay Sanitary District
Schedule of Pension Contributions - CalPERS
June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contributions (Actuarially Determined)	\$ 413,896	\$ 387,500	\$ 399,280	\$ 368,713
Contributions in Relation to Actuarially Determined Contributions	413,896	387,500	399,280	368,713
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	\$ 2,795,654	\$ 2,765,233	\$ 2,544,628	\$ 2,411,343
Contributions as a Percentage of Covered Payroll	14.80%	14.01%	15.69%	15.29%

Notes to Schedule:

Valuation Date: June 30, 2016
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
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 four years are shown.

West Bay Sanitary District
 Schedule of Proportionate Share of Net Pension Liability
 June 30, 2018

	2018	2017	2016	2015
Proportion of Net Pension Liability	0.12991%	0.12750%	0.12849%	0.10822%
Proportionate Share of Net Pension Liability	\$ 5,120,961	\$ 4,429,092	\$ 3,524,991	\$ 2,674,755
Covered Employee Payroll	\$ 2,765,233	\$ 2,544,628	\$ 2,411,343	\$ 2,339,003
Proportionate Share of NPL as a % of Covered Payroll	185.19%	174.06%	146.18%	114.35%
Plan's Fiduciary Net Position as a % of the TPL	72.32%	73.58%	78.29%	83.03%

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

West Bay Sanitary District
Schedule of OPEB Contributions
June 30, 2018

	Fiscal Year Ended June 30, 2018
Actuarially determined contribution (ADC)	\$ 7,860
Less: actual contribution in relation to ADC	(7,860)
Contribution deficiency (excess)	\$ -
Covered payroll	\$ 2,795,654
Contributions as a percentage of covered payroll	0.28%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2017
Actuarial Cost Method	Entry-Age Normal
Amortization Period	20 years
Asset Valuation Method	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.75%
Payroll Increases	3.00%
Investment Rate of Return	6.75%, Net of OPEB plan investment expenses, including inflation
Mortality	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous"
Service Requirement	2014 CalPERS OPEB Assumptions Model for miscellaneous public employees with 2.5% at 55 retirement

Other Notes

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

West Bay Sanitary District
Schedule of Net OPEB Liability
June 30, 2018

	Fiscal Year Ended June 30, 2018
Total OPEB liability	
Service cost	\$ 6,513
Interest	16,476
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(7,909)
Net change in Total OPEB Liability	15,080
Total OPEB Liability - beginning	278,553
Total OPEB Liability - ending	\$ 293,633
 Plan fiduciary net position	
Employer contributions	\$ 232,909
Employer implicit subsidy	-
Employee contributions	-
Net investment income	10,234
Difference between estimated and actual earnings	-
Benefit payments	(7,909)
Other	-
Administrative expense	-
Net change in plan fiduciary net position	235,234
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	\$ 235,234
 Net OPEB liability	\$ 58,399
 Plan fiduciary net position as a percentage of the total OPEB liability	80.11%
 Covered employee payroll	\$ 2,799,216
 Net OPEB Liability as a percentage of covered payroll	2.09%
 Total OPEB Liability as a percentage of covered payroll	10.49%

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

SUPPLEMENTARY INFORMATION

West Bay Sanitary District
 Budgetary Comparison Schedule
 For the Fiscal Year Ended June 30, 2018

	Budget Amounts	Actual (GAAP Basis)	Variance
Operating Revenues:			
Service charges	\$ 25,395,640	\$ 26,391,698	\$ 996,058
Flow equalization uses	324,642	327,574	2,932
Permit and inspection fees and other services	100,000	293,578	193,578
Other operating revenues	426,750	431,869	5,119
Total operating revenues	<u>26,247,032</u>	<u>27,444,719</u>	<u>1,197,687</u>
Operating Expenses:			
Sewage treatment	12,296,950	12,177,636	119,314
Sewage collection and general administration:			
Salaries and benefits	4,847,228	4,773,639	73,589
Materials and supplies	458,695	416,494	42,201
Insurance	104,850	98,655	6,195
Contract services	402,000	357,048	44,952
Professional services	529,350	371,582	157,768
Repairs and maintenance	278,500	219,895	58,605
Utilities	156,000	149,927	6,073
Other operating expenses	351,850	260,956	90,894
Total sewage collection and general administration	<u>7,128,473</u>	<u>6,648,196</u>	<u>480,277</u>
Depreciation	1,800,000	1,868,991	(68,991)
Total operating expenses	<u>21,225,423</u>	<u>20,694,823</u>	<u>530,600</u>
Operating Income (Loss)	<u>5,021,609</u>	<u>6,749,896</u>	<u>1,728,287</u>
Nonoperating Revenues (Expenses):			
Investment income	125,000	288,205	163,205
Increase (decrease) of equity in Silicon Valley Clean Water	-	(556,576)	(556,576)
Other nonoperating expenses	(25,000)	-	25,000
Other nonoperating revenues	1,000	167,084	166,084
Total nonoperating revenues (expenses)	<u>101,000</u>	<u>(101,287)</u>	<u>(202,287)</u>
Income before contributions	5,122,609	6,648,609	1,526,000
Capital Contributions	<u>500,000</u>	<u>570,181</u>	<u>70,181</u>
Change in Net Position	5,622,609	7,218,790	1,596,181
Beginning Net Position	101,215,733	101,215,733	-
Ending Net Position	<u>\$ 106,708,498</u>	<u>\$ 108,304,679</u>	<u>\$ 1,596,181</u>

West Bay Sanitary District
 Connection Fee Schedule
 For the Fiscal Year Ended June 30, 2018

Summary of Connection Fee Revenue and Expenditures:

Connection Fee Revenue	\$ 570,181
Allocated Interest on Connection Fee Revenue	<u>2,851</u>

Total Connection Fees and Interest Available for 2017-18

Capacity Project Expenditures	573,032
	<u>(2,640,489)</u>

Beginning Balance Available, July 1, 2017

-

Ending Balance Available, June 30, 2018

\$ (2,067,457) (1)

Capacity Project Expenditures - Description:

	Expenditures		Connection Fees and Interest		Capital Asset Fund	
	Amount	Percent	Amount	Percent	Amount	Percent
Flow Monitoring Study	\$ 33,697	100%	\$ 33,697	100%	-	0%
Flow Meters	46,334	100%	46,334	100%	-	0%
Sewer System Model Software	45,000	100%	45,000	100%	-	0%
Pump & Valve Replacement Program	46,859	0%	-	0%	46,859	100%
Private Pump & Panel Replacements	9,456	0%	-	0%	9,456	100%
Pipeline Replacement & Rehab Engineering:						
Emergency Repair Alpine Road	27,717	0%	-	0%	27,717	100%
Levee Design	19,819	50%	9,910	50%	9,909	50%
Belle Haven II	45,809	75%	34,357	75%	11,452	25%
Pipeline Replacement & Rehab Construction:						
Belle Haven II	<u>2,907,283</u>	85%	<u>2,471,191</u>	85%	<u>436,092</u>	15% (2)

Total Capacity Project Expenditures

Total Capacity Project Expenditures	\$ 3,181,974
	<u>\$ 2,640,489</u>
	<u>\$ 541,485</u>

Notes:

- (1) deficits are covered by the Capital Assets Fund
- (2) 85% Allocation from Connection Fees is not possible due to lack of Connection Fees available.

**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, 2018, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated November 7, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not



express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

C & A LLP

November 7, 2018
San Jose, California