WEST BAY
SANITARY DISTRICT

Serving Our Community Since 1902

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

PHIL SCOTT
District Manager

In reply, please refer to our
File No.

December 14, 2016

MEMORANDUM

TO: West Bay Sanitary District's Customers & Owners

FROM: West Bay Sanitary District Board of Directors

RE: Financial Audit – Fiscal Year 2015 – 2016

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, 2015 and June 30, 2016.

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:

Ron Shepherd	President
David Walker	Secretary
Fran Dehn	Director
Roy Thiele-Sardina	Director
Ned Moritz	Treasurer

WEST BAY SANITARY DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2016
Approved December 14, 2016
* * *

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

West Bay Sanitary District

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June 30, 2016

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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of pension contributions - CalPERS, schedule of proportionate share of

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

New Accounting Principles

As discussed in Note 2 to the financial statements, the District adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Loca*l Governments, effective June 30, 2016. Our opinion is not modified with respect to these matters.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2016 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, 2016
San Jose, California

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The West Bay Sanitary District (the District) has issued its financial statements for the fiscal year ended June 30, 2016, 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 $3,909,904 or 4.5%.
- The District's operating revenue increased by $2,172,812 or 9.8%.
- The District's operating expenses increased by $3,647,820 or 24.6%.

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.

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

	2016	2015	Dollar Change	Percent Change
Assets				
Current & Other Assets	$ 53,652,452	$ 52,437,601	$ 1,214,851	2.3%
Capital Assets	43,914,905	41,285,208	2,629,697	6.4%
Total Assets	$ 97,567,357	$ 93,722,809	$ 3,844,548	4.1%
Deferred Outflows of Resources	$ 773,589	$ 368,713	$ 404,876	100.0%
Liabilities				
Current Liabilities	$ 2,631,509	$ 2,833,337	$ (201,828)	-7.1%
Noncurrent Liabilities	3,764,819	2,885,787	879,032	30.5%
Total Liabilities	$ 6,396,328	$ 5,719,124	$ 677,204	11.8%
Deferred Inflows of Resources	$ 336,448	$ 674,132	$ (337,684)	100.0%
Net Position				
Net Investment in Capital Assets	$ 43,914,905	$ 41,285,208	$ 2,629,697	6.4%
Unrestricted:				
Capital fund budget	19,923,329	18,083,338	1,839,991	10.2%
Invested in SVCW	13,261,248	16,928,356	(3,667,108)	-21.7%
Operations reserve	7,441,158	6,505,889	935,269	14.4%
Unreserved	7,067,530	4,895,475	2,172,055	44.4%
Total Net Position	$ 91,608,170	$ 87,698,266	$ 3,909,904	4.5%

As seen above, the District's total net position increased by $3,909,904, or 4.5%, from fiscal year 2014-15 to 2015-16. The District's current and other assets increased by $1,214,851. Capital assets increased by $2,629,697 from capital spending totaling $4,144,597. Total Liabilities increased by $677,204 primarily due to increases to the District's net pension liability of $850,236.

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

Table 2 - Change in Net Position

	2016	2015	Dollar Change	Percent Change
Revenues				
Operating Revenue	$ 24,373,417	$ 22,200,605	$ 2,172,812	9.8%
Operating Expenses				
Sewage treatment	10,473,285	7,863,183	2,610,102	33.2%
Sewage collection and general administration	6,479,670	5,656,377	823,293	14.6%
Depreciation	1,514,901	1,300,476	214,425	16.5%
Total Operating Expenses	18,467,856	14,820,036	3,647,820	24.6%
Operating Income (Loss)	5,905,561	7,380,569	(1,475,008)	-20.0%
Nonoperating Revenue (Expense)	389,976	190,627	199,349	104.6%
Increase (decrease) of equity in SVCW	(3,667,108)	1,343,718	(5,010,826)	-372.9%
Connection Fees	1,281,475	5,696,108	(4,414,633)	-77.5%
Change in Net Position Current	3,909,904	14,611,022	(10,701,118)	-73.2%
Prior Period Adjustments to Beginning Net Position	-	(3,320,199)	3,320,199	-100.0%
Total Change in Net Position	$ 3,909,904	$ 11,290,823	$ (7,380,919)	-65.4%

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 $3,909,904 in Table 1 was in part the result of an increase in operating revenues, connection fees, and operating expenses. Operating revenues increased by $2,172,812 (9.8%) primarily due to a 9% increase in service fees. Connection fees decreased $4,414,633 over the prior year as a result of several large commercial and residential developments within the District in the prior year. Total operating expenses, which include sewage treatment, collection, general administration, and depreciation, increased $3,647,820 (24.6%) over the prior year.

The most significant impact in operating expenses came from sewage treatment which increased by 33% over prior year. Sewage treatment is provided by Silicon Valley Clean Water, formerly South Bayside System Authority, which was created in 1975 under a Joint exercise of Powers Agreement to construct and operate a sewage treatment facility at Redwood Shores for the District and the cities of Belmont, San Carlos, and Redwood City. As a member of the JPA the District is liable for its share of SVCW operating expenses. For the year ending June 30, 2015, the District's share was approximately 26%. The cost of sewage treatment increased significantly in FY2015-16 as a result of new SVCW bond and debt service for capital improvements. For FY2015-16 the District's share of SVCW bond and debt service totaled $2,897,955 which was an increase of $402,514 from the prior year. A further impact to the change in net position resulted from the significant decrease in equity in SVCW, from a gain of $1.3 million in FY2014-15 to a loss of $3.7M in FY2015-16. (See Note 4 on page 19).

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.

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, 2016.

Table 3 - Budget Summary

	Budget	Actual	Variance	Percent Variance
Revenues				
Operating Revenue	$ 23,659,321	$ 24,373,417	$ 714,096	3.0%
Operating Expenses				
Sewage treatment	11,224,139	10,473,285	750,854	7.2%
Sewage collection and general administration	6,634,641	6,479,670	154,971	2.4%
Depreciation	1,500,000	1,514,901	(14,901)	-1.0%
Total Operating Expenses	19,358,780	18,467,856	890,924	4.8%
Operating Income (Loss)	4,300,541	5,905,561	1,605,020	37.3%
Nonoperating Revenue (Expense)	126,000	389,976	263,976	67.7%
Increase (Decrease) of Equity in SVCW	-	(3,667,108)	(3,667,108)	100.0%
Connection Fees	50,000	1,281,475	1,231,475	2463.0%
Change in Net Position	$ 4,476,541	$ 3,909,904	$ (566,637)	-12.7%

The District reported $714,096 more in operating revenue than budgeted primarily resulting from higher sewer service fees collected. Total operating expenses were $890,924 less than budgeted primarily due to the timing of payments made for SVCW bond and loan debt.

Table 4 summarizes the capital budget for the fiscal year ended June 30, 2016:

Table 4 - Capital Fund Budget Summary

	Budget	Actual	Variance	Percent Variance
Transfer from Operations	$ 5,831,541	$ 7,579,520	$ 1,747,979	30%
Capital Expenditures	(8,059,500)	(4,144,597)	3,914,903	-94%
Connection Charges	50,000	1,281,475	1,231,475	2463%
Interest Income	75,000	338,593	263,593	351%
Capital Projects Reserve	(320,000)	-	320,000	100%
Rate Stabilization Reserve	-	(3,000,000)	(3,000,000)	100%
Equipment Replacement Reserve	(215,000)	(215,000)	-	0%
Change in capital Asset Fund	(2,637,959)	1,839,991	4,477,950	243%
Beginning Fund Balance	16,202,765	18,083,338	1,880,573	12%
Ending Fund Balance	$ 13,564,806	$ 19,923,329	$ 6,358,523	47%

Actual Capital Expenditures of $4,144,597 to acquire capital equipment and replace or rehabilitate old sewer pipeline were $3,914,903 less than budgeted. The favorable variances in connection fees allowed the District also set aside $215,000 for equipment replacement and $3,000,000 for rate stabilization, which fully funded these reserves. Due to the favorable variances in total revenue and total expense to budget, the District was able to transfer $7,579,520 into the Capital Asset budget at year end which contributed to an ending reserve balance of $19,923,329.

CAPITAL ASSETS

Table 5 shows a summary of capital assets owned by the District as of June 30, 2016.

Table 5 - Summary of Capital Assets Net of Depreciation

	2016	2015	Dollar Change	Percent Change
Land	$ 44,467	$ 44,467	$ -	0.00%
Construction in Progress	4,372,957	4,276,708	96,249	2.25%
Pump stations	3,094,983	3,144,058	(49,075)	-1.56%
Fleet	970,789	1,034,257	(63,468)	-6.14%
Plant and administration facilities	252,098	204,903	47,195	23.03%
Buildings	1,960,726	2,038,177	(77,451)	-3.80%
Flow equalization facilities	637,865	728,049	(90,184)	-12.39%
Subsurface lines	32,581,020	29,814,589	2,766,431	9.28%
Net Capital Assets	$ 43,914,905	$ 41,285,208	$ 2,629,697	6.37%

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, 2016
(With Comparative Totals as of June 30, 2015)

	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 20,442,968	$ 20,225,092
Accounts receivable	1,561,725	387,717
Interest receivable	120,550	82,410
Prepaid expenses and other current assets	32,180	42,648
Total Current Assets	22,157,423	20,737,867
Noncurrent Assets:		
Investments	18,233,781	14,771,378
Investment in Silicon Valley Clean Water	13,261,248	16,928,356
Capital assets:		
Non-depreciable	4,417,424	4,321,175
Depreciable net of accumulated depreciation	39,497,481	36,964,033
Total Capital Assets - Net	43,914,905	41,285,208
Total Noncurrent Assets - Net	75,409,934	72,984,942
Total Assets	$ 97,567,357	$ 93,722,809
Deferred Outflows of Resources		
Pension contributions	$ 773,589	$ 368,713
Liabilities		
Current Liabilities:		
Accounts payable	$ 2,450,734	$ 2,656,423
Payroll and related liabilities	9,262	6,296
Construction deposits	9,381	9,381
Compensated absences payable - current	162,132	161,237
Total Current Liabilities	2,631,509	2,833,337
Noncurrent Liabilities:		
Net OPEB obligation	119,049	99,221
Net pension obligation	3,524,991	2,674,755
Compensated absences payable - noncurrent	120,779	111,811
Total Noncurrent Liabilities	3,764,819	2,885,787
Total Liabilities	$ 6,396,328	$ 5,719,124
Deferred Inflows of Resources		
Pension adjustments from projected and actual earnings	$ 336,448	$ 674,132
Net Position		
Net Investment in Capital Assets	$ 43,914,905	$ 41,285,208
Unrestricted:		
Capital fund budget	19,923,329	18,083,338
Invested in Silicon Valley Clean Water	13,261,248	16,928,356
Operations reserve	7,441,158	6,505,889
Unreserved	7,067,530	4,895,475
Total Net Position	$ 91,608,170	$ 87,698,266

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, 2016

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

	2016	2015
Operating Revenues:		
Service charges	$ 23,208,142	$ 21,067,232
Flow equalization uses	306,900	300,000
Permit and inspection fees and other services	242,077	461,718
Other operating revenues	616,298	371,655
Total operating revenues	24,373,417	22,200,605
Operating Expenses:		
Sewage treatment	10,473,285	7,863,183
Sewage collection and general administration:		
Salaries and benefits	4,538,250	3,801,631
Materials and supplies	346,827	373,822
Insurance	78,753	75,350
Contract services	442,135	373,941
Professional services	563,261	506,079
Repairs and maintenance	171,892	201,633
Utilities	116,154	115,553
Other operating expenses	222,398	208,368
Total sewage collection and general administration	6,479,670	5,656,377
Depreciation	1,514,901	1,300,476
Total operating expenses	18,467,856	14,820,036
Operating Income (Loss)	5,905,561	7,380,569
Nonoperating Revenues (Expenses):		
Investment income	385,725	181,675
Increase (decrease) of equity in Silicon Valley Clean Water	(3,667,108)	1,343,718
Other nonoperating revenues	4,251	8,952
Total nonoperating revenues (expenses)	(3,277,132)	1,534,345
Income before contributions	2,628,429	8,914,914
Capital contributions - connection fees	1,281,475	5,696,108
Change in Net Position	3,909,904	14,611,022
Beginning Net Position	87,698,266	76,407,443
Prior Period Adjustment - GASB 68	-	(3,320,199)
Beginning Net Position - As Adjusted	87,698,266	73,087,244
Ending Net Position	$ 91,608,170	$ 87,698,266

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, 2016
(With Comparative Totals for the Fiscal Year Ended June 30, 2015)

	2016	2015
Cash Flows from Operating Activities:		
Cash received from customers	$ 23,199,409	$ 22,201,138
Cash payments to suppliers for goods and services	(12,609,926)	(8,860,293)
Cash payments to employees for services	(3,141,099)	(2,528,503)
Cash payments of benefits on behalf of employees	(1,256,818)	(1,609,125)
Net Cash Provided (Used) by Operating Activities	6,191,566	9,203,217
Cash Flows from Capital and Related Financing Activities:		
Cash received from connection fees	1,281,475	5,696,108
Cash received on the sale of capital assets	4,251	-
Purchases and construction of capital assets	(4,144,598)	(4,566,131)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,858,872)	1,129,977
Cash Flows from Investing Activities:		
Sales, purhcases and redemption of investments - net	(3,462,403)	(9,920,577)
Investment income	347,585	140,349
Other income (expense)	-	8,952
Net Cash Provided (Used) by Investing Activities	(3,114,818)	(9,771,276)
Net Increase (Decrease) in Cash and Cash Equivalents	217,876	561,918
Cash and Cash Equivalents Beginning	20,225,092	19,663,174
Cash and Cash Equivalents Ending	$ 20,442,968	$ 20,225,092
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:		
Operating Income (Loss)	$ 5,905,561	$ 7,380,569
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,514,901	1,300,476
GASB 68 pension adjustments	-	(340,025)
Net change in:		
Accounts receivable	(1,174,008)	533
Prepaid expenses and other current assets	10,468	(8,343)
Deposits	-	(106,074)
Deferred outflows of resources	(404,876)	-
Accounts payable	(205,689)	972,053
Payroll and related liabilities	2,966	(1,801)
Net OPEB obligation	19,828	21,562
Net pension obligation	850,236	-
Deferred inflows of resources	(337,684)	-
Compensated absences	9,863	(15,733)
Net Cash Provided (Used) by Operating Activities	$ 6,191,566	$ 9,203,217

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

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*

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.

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 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. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

The following is a summary of the definition of fair value:

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, 2016.

Capital Assets

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

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

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

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

Compensated Absences

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

Pensions

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

Accounting Estimates

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

Subsequent Events

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

Implemented New Accounting Pronouncements

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

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

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The implementation of this statement did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – GASB 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB 79, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of GASB 79 are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The implementation of GASB 79 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

Upcoming New Accounting Pronouncements

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

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective date: the provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

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

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

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

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

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

GASB Statement No. 78, ***Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*** **–** The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. Management does not anticipate a material impact on its financial statements from the implementation of this standard.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* – The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for fiscal years beginning after December 15, 2016. The District is currently evaluating the impact on the financial statements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

NOTE 3 - CASH AND INVESTMENTS

The District's cash and investments consisted of the following as of June 30, 2016 and 2015:

			Maturities					
Description	Rating	Fair Value June 30, 2016	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months	Concen-trations	Fair Value June 30, 2015
Bank of the West Investements:								
Municipal Bonds	AA+/AA3	$ 2,028,778	$ 509,977	$ 790,397	$ 675,647	$ 52,757	5.25%	$ 2,494,521
Corporate Bonds	BBB/A+	5,400,745	628,648	1,251,654	3,520,443	-	13.96%	7,261,851
US Agency Obligations	Govt	10,804,260	1,606,493	2,336,769	6,814,580	46,418	27.93%	5,015,005
Total Bank of West Investments	AAA	18,233,783	2,745,118	4,378,820	11,010,670	99,175	47.14%	14,771,378
Cash and Cash Equivalents:								
Cash on hand and in banks	N/A	1,484,587	1,484,587	-	-	-	3.84%	952,612
Money Market	N/A	17,696,834	17,696,834	-	-	-	45.76%	17,854,027
Bank of the West Cash Equivalents	N/A	240,002	240,002	-	-	-	0.62%	400,565
LAIF	N/A	1,020,943	1,020,943	-	-	-	2.64%	1,017,288
Petty Cash	N/A	600	600	-	-	-	0.00%	600
Total Cash and Cash Equivalents		20,442,966	20,442,966	-	-	-	52.86%	20,225,092
Total Cash and Investments		$ 38,676,749	$ 23,188,084	$ 4,378,820	$ 11,010,670	$ 99,175	100.00%	$ 34,996,470

Cash Deposits

As of June 30, 2016, the District's cash deposits exceeded the Federal Deposit Insurance Corporation ("FDIC") insured limits by $1,316,343, 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:

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

Fair Value Measurements

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

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

All of the Districts investments were valued using Level 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, 2016, was approximately $74.5 billion of that amount, 99.25% was invested in non-derivative financial products and .75% was invested in structured notes and asset-backed securities. The average maturity for the investment in LAIF was 167 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 failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of the District's investments were subject to custodial credit risk.

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

NOTE 4 - INVESTMENT IN SILICON VALLEY CLEAN WATER

Silicon Valley Clean Water (SVCW), formerly 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, 2016 and 2015, the District had approximately 17% and 26% equity interest in SVCW, which is reported using the equity method of accounting. The Districts investment in SVCW at June 30, 2016 and 2015 was $13,261,248 and $16,928,356, respectively, as reflected on the statement of net position. The change in the investment for the years ended June 30, 2016 and 2015 was a decrease of $3,667,108 and an increase of $1,343,718, respectively, as reflected in the statement of revenues, expenses and changes in net position. The 2016 decrease in the District's equity share was 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, 2016, (most recent information available):

	June 30, 2016
Total Assets	$ 304,262,866
Deferred Outflows of Resources	3,547,927
Total Liabilities	224,521,135
Deferred Inflows of Resources	4,125,769
Total Equity	79,163,889
Total Revenues	53,467,771
Total Expenditures	39,717,549

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

The District's capital assets consisted of the following as of June 30, 2016:

Description	Balance June 30, 2015	Additions	Deletions	Transfers	Balance June 30, 2016
Non-depreciable Capital Assets:					
Land	$ 44,467	$ -	$ -	$ -	$ 44,467
Construction in progress	4,276,708	3,737,030	-	(3,640,781)	4,372,957
Total non-depreciable capital assets	4,321,175	3,737,030	-	(3,640,781)	4,417,424
Depreciable Capital Assets:					
Pump stations	5,264,895	52,878	-	-	5,317,773
Fleet	2,277,147	126,983	(36,088)	-	2,368,042
Plant and administration facilities	1,397,795	93,765	(49,326)	-	1,442,234
Buildings	2,956,558	13,122	-	-	2,969,680
Flow equalization facilities	2,901,072	-	-	-	2,901,072
Subsurface lines	45,666,486	120,819	-	3,640,781	49,428,086
Total depreciable capital assets	60,463,953	407,567	(85,414)	3,640,781	64,426,887
Less accumulated depreciation for:					
Pump stations	(2,120,837)	(101,953)	-	-	(2,222,790)
Fleet	(1,242,890)	(190,451)	36,088	-	(1,397,253)
Plant and administration facilities	(1,192,892)	(46,570)	49,326	-	(1,190,136)
Buildings	(918,381)	(90,573)	-	-	(1,008,954)
Flow equalization facilities	(2,173,023)	(90,184)	-	-	(2,263,207)
Subsurface lines	(15,851,897)	(995,169)	-	-	(16,847,066)
Total accumulated depreciation	(23,499,920)	(1,514,900)	85,414	-	(24,929,406)
Total depreciable capital assets - net	36,964,033	(1,107,333)	-	3,640,781	39,497,481
Total capital assets - net	$ 41,285,208	$ 2,629,697	$ -	$ -	$ 43,914,905

Depreciation expense for the year ended June 30, 2016 and 2015 was $1,514,901 and $1,300,476, respectively.

Construction in progress consisted of the following as of June 30, 2016:

Project	Balance June 30, 2016
Fair Oaks	$ 10,598
Oak Grove	12,110
Easement Design Projects	78,598
Sausal Vista PS	1,295,099
Sausal Vista PS II	484,845
FEF Metal Storage Building	27,673
Haven, Marsh, Middlefield & James	19,154
Belle Haven I	2,194,504
Belle Haven II	211,834
FEF Improvements - F&L	8,557
Unanticipated Marsh Rd Lining	29,985
Total Construction in Progress	$ 4,372,957

NOTE 6 - NONCURRENT LIABILITIES

The District's noncurrent liabilities consisted of the following as of June 30, 2016:

Description	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
Net OPEB Obligation	$ 99,221	$ 25,313	$ 5,485	$ 119,049	$ -
Net Pension Obligation	2,674,755	850,236	-	3,524,991	-
Compensated Absences	273,048	9,863	-	282,911	162,132
Total Noncurrent Liabilities	$ 3,047,024	$ 885,412	$ 5,485	$ 3,926,951	$ 162,132

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, 2016:

Description		Balance
Future capital assets replacement and reserves	$	19,923,329
Invested in Silicon Valley Clean Water		13,261,248
Operations		7,441,158
Total Commited Net Unrestricted Position	$	40,625,735

NOTE 8 - DEFERRED COMPENSATION PLAN

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

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

NOTE 9 - RISK MANAGEMENT

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

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

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, 2015 (most recent information available):

	June 30, 2015
Total Assets	$ 27,418,098
Total Liabilities	16,714,638
Total Equity	10,703,460
Total Revenues	10,895,632
Total Expenditures	11,157,866

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, 2016, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2	PEPRA
Hire date	Before 12/06/12	After 12/6/12; Before 1/1/13	On or after 1/1/13
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%	2.00%
Required employee contribution rates	8.000%	7.00%	6.250%
Employee contribution rates per MOU	6.997%	8.00%	6.832%
Required employer contribution rates	15.075%	8.00%	6.250%
Employer contribution rates per MOU	16.078%	8.00%	6.237%

Employees Covered - At June 30, 2016, the following employees were covered by the benefit terms for the Plan:

	Miscellaneous
Active	25
Retired	39
Total Employees Covered	64

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, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	Total
Contributions - employer	$ 365,293
Contributions - employee	193,632
Total contributions	$ 558,925

During the fiscal year, the Classic employees contributed 6.997% and the PEPRA employees contributed 6.832% of their salary toward the combined required contribution of 23.075% for the Classic plan and 13.069% for PEPRA, leaving the District's total contribution at 16.078% for the Classic plan and 6.237% for PEPRA in 2016. Total contributions made by employees over the last three fiscal years ended June 30, 2016, 2015 and 2014 were $184,846, $142,082 and $105,953, respectively.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of $3,524,991. 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, 2015, 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, 2014 rolled forward to June 30, 2015 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, 2014 and 2015 was as follows:

	Miscellaneous
Proportion - June 30, 2014	0.1082%
Proportion - June 30, 2015	0.1285%
Change	0.0203%

For the year ended June 30, 2016, the District recognized pension expense of $506,955. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 399,280	$ -
Changes in assumptions	-	(224,102)
Differences between expected and actual experiences	23,687	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	350,622	-
Net differences between projected and actual earnings on plan investments	-	(112,345)
Total	$ 773,589	$ (336,448)

The District reported $399,280 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, 2017.

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

Measurement Periods Ended June 30:	Deferred Outflows/(inflows) of Resources Miscellaneous
2016	$ 336,689
2017	(45,276)
2018	2,124
2019	143,604
Total	$ 437,141

Actuarial Assumptions - The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

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

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount

Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	$ 5,911,655
Current Discount Rate	7.65%
Net Pension Liability	$ 3,524,991
1% Increase	8.65%
Net Pension Liability	$ 1,554,522

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

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's single employer defined benefit postemployment healthcare plan provides health care benefits to eligible retirees in accordance with a Board resolution. Eligible employees retiring at or after age 50 with a minimum of 5 years of service may opt to continue health care coverage, with a portion of the monthly premium paid for by the District. Coverage discontinues either at the request of the retiree or by defaulting on the employee portion of the premium.

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

Funding Policy

There is no statutory requirement for the District to prefund its OPEB obligation. The District has currently chosen to pay plan benefits on a pay-as-you-go basis. There are no employee contributions. For fiscal year ending June 30, 2016, the District paid approximately $5,485 for retiree healthcare plan benefits. The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

Annual OPEB Cost and Net OPEB Obligation

The following table, based on the District's actuarial valuation dated July 1, 2015, shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's Net OPEB obligation:

Annual required contribution	$ 25,720
Interest on net OPEB obligation	4,961
Adjustment to annual required contribution	(5,368)
Annual OPEB cost (expense)	25,313
Contributions made	(5,485)
Increase in net OPEB obligation	19,828
Net OPEB obligation - beginning of year	99,221
Net OPEB obligation - end of year	$ 119,049

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2016, are as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 26,200	23.33%	$ 77,659
June 30, 2015	25,900	16.75%	99,221
June 30, 2016	25,313	21.67%	119,049

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

Actuarial Methods and Assumptions

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

In the July 1, 2015 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return, which is the expected long-term investment return on District investments, a 3% general inflation assumption, and an annual aggregate payroll increase rate of 3%.

Required Supplementary Information

Schedule of Funding Progress - Postemployement Healthcare Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
3/1/2010	$ -	$ 137,900	$ 137,900	0.00%	$ 1,952,200	7.06%
3/1/2013	$ -	$ 186,100	$ 186,100	0.00%	$ 2,391,800	7.78%
7/1/2015	$ -	$ 217,440	$ 217,440	0.00%	$ 2,846,000	7.64%

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. A long term agreement between the parties is being developed (FY16-17) to establish the terms and conditions of loan payment, grant easement, ownership of the facility, design criteria, and terms of operation and maintenance.

Through June 30, 2016, total costs for consultants, attorneys, studies, applications and reports have totaled $439,125. The cost sharing breakdown for these expenditures is as follows:

West Bay Sanitary District	$179,362
SHGCC (Club)	$185,286
State Revolving Fund	$74,477

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

REQUIRED SUPPLEMENTARY INFORMATION

West Bay Sanitary District
Schedule of Pension Contributions - CalPERS
For the Fiscal Year Ended June 30, 2016

	2016	2015
Miscellaneous Cost Sharing Pool:		
Contractually Required Contributions (Actuarially Determined)	$ 365,293	$ 334,478
Contributions in Relation to Actuarially Determined Contributions	365,293	334,478
Contribution Deficiency (Excess)	$ -	$ -
Covered Employee Payroll	**$ 2,482,957**	**$ 2,352,339**
Contributions as a Percentage of Covered Payroll	**14.71%**	**14.22%**

Notes to Schedule:

Valuation Date: June 30, 2014

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

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

West Bay Sanitary District

Schedule of Proportionate Share of Net Pension Liability

For the Fiscal Year Ended June 30, 2015

Miscellaneous Cost Sharing Pool:	2016	2015
District's Proportion of Net Pension Liability	0.12849%	0.10822%
District's Proportionate Share of Net Pension Liability	$ 3,524,991	$ 2,674,755
District's Covered Employee Payroll	$ 2,482,957	$ 2,352,339
District's Proporitionate Share of NPL as a % of Covered Employee Payroll	**141.97%**	**113.71%**
Plan Fiduciary's Net Position as a % of the TPL	**78.29%**	**83.03%**

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

SUPPLEMENTARY INFORMATION

West Bay Sanitary District
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2016

	Budget Amounts	Actual (GAAP Basis)	Variance
Operating Revenues:			
Service charges	$ 22,899,707	$ 23,208,142	$ 308,435
Flow equalization uses	309,000	306,900	(2,100)
Permit and inspection fees and other services	50,000	242,077	192,077
Other operating revenues	400,614	616,298	215,684
Total operating revenues	23,659,321	24,373,417	714,096
Operating Expenses:			
Sewage treatment	11,224,139	10,473,285	750,854
Sewage collection and general administration:			
Salaries and benefits	4,464,416	4,538,250	(73,834)
Materials and supplies	435,195	346,827	88,368
Insurance	92,000	78,753	13,247
Contract services	388,000	442,135	(54,135)
Professional services	425,350	563,261	(137,911)
Repairs and maintenance	259,000	171,892	87,108
Utilities	145,000	116,154	28,846
Other operating expenses	425,680	222,398	203,282
Total sewage collection and general administration	6,634,641	6,479,670	154,971
Depreciation	1,500,000	1,514,901	(14,901)
Total operating expenses	19,358,780	18,467,856	890,924
Operating Income (Loss)	4,300,541	5,905,561	1,605,020
Nonoperating Revenues (Expenses):			
Investment income	125,000	385,725	260,725
Increase (decrease) of equity in Silicon Valley Clean Water	-	(3,667,108)	(3,667,108)
Other nonoperating expenses	-	-	-
Other nonoperating revenues	1,000	4,251	3,251
Total nonoperating revenues (expenses)	126,000	(3,277,132)	(3,403,132)
Income before contributions	4,426,541	2,628,429	(1,798,112)
Capital Contributions	50,000	1,281,475	1,231,475
Change in Net Position	4,476,541	3,909,904	(566,637)
Beginning Net Position	87,698,266	87,698,266	-
Ending Net Position	$ 92,174,807	$ 91,608,170	$ (566,637)

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, 2016, 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, 2016.

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

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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, 2016
San Jose, California

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