

WEST BAY SANITARY DISTRICT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2021**

* * *



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West Bay Sanitary District

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the West Bay Sanitary District (the "District"), as of and for the year ended June 30, 2021, 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Prior-Year Comparative Information

We have previously audited the District's June 30, 2020 financial statements, and we expressed unmodified audit opinions on the respective financial statements in our report dated November 18, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Change in the Application of an Accounting Principle

As discussed in Note 2, Note 10, and Note 14 to the financial statements, the District obtained an actuarial valuation for its pension plan in order to determine the amount required to fund its unfunded pension liability in the fiscal year ended June 30, 2021. As a result, the District changed its measurement period from June 30, 2020 to June 30, 2021, in order to reflect the payments made toward its unfunded pension liability. 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 10, 2021 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 10, 2021
San Jose, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2021

Management's Discussion & Analysis

The West Bay Sanitary District (District) is a Special District for the State of California providing wastewater collection and conveyance services to the City of Menlo Park, Atherton, and Portola Valley, and areas of East Palo Alto, Woodside and unincorporated San Mateo and Santa Clara counties. The District conveys raw wastewater via the Menlo Park Pump Station and force main, to Silicon Valley Clean Water (SVCW) for treatment and discharge to the San Francisco Bay. The District has been serving the community since 1902, expanding over the years to operate and maintain 216 miles of pipeline and 12 pump stations. The District also operates the Sharon Heights Recycled Water Facility (SHRWF) with one influent pump station, 85 step/grinder private pumps for customers in the Portola Valley area, and 60 miles of pipeline and four pump stations for the Towns of Los Altos Hills and Woodside.



Mission Statement

The West Bay Sanitary District is dedicated to protecting the public health and the environment by providing cost effective sanitary sewer service.

We are committed to providing our customers with wastewater disposal services utilizing the highest technical, environmental, and safety standards available; to providing the very best customer service; to ensuring the fiscal viability of our District by applying sound business principles and to ensuring the optimum operation of our infrastructure by employing professional maintenance and replacement practices.

Overview of the Financial Statements

The District has issued its financial statements for the fiscal year ended June 30, 2021, in conformity with the format prescribed by the provisions of the Governmental Accounting Standards Board (GASB). For financial reporting purposes, the District operates as a special-purpose government engaged in business type activities, following accrual accounting methods, similar to those of non-profit organizations. The District is governed by five at large elected Board of Directors, serving four year terms.

This financial report includes three parts: management's discussion and analysis, the basic financial statements, and supplemental information.

- The basic financial statements include the Statement of Net Position; Statement of Revenues, Expenses, and Change in Net Position; and Statement of Cash Flows, for the combined operations of the District for the fiscal years ended June 30, 2021 and 2020. The notes to the basic financial statements are an integral part of the basic financial statements and provide details on accounting policies, assets, and other information in the statements.
- Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as presented in the table of contents, be presented to supplement the basic financial statements.

West Bay Sanitary District
 Management's Discussion and Analysis
 June 30, 2021

Financial Analysis of the District

Net Position



The Statement of Net Position summary is provided in Table 1 to highlight the changes from June 30, 2020 to June 30, 2021. The District's total net position increased by \$8.13 million, or 6%, predominately from an increase in investments and payoffs of the District's California Public Employees' Retirement System (PERS) \$5.5 million Unfunded Accrued Liability (UAL), as of June 30, 2020. This will result in significant future savings, estimated at \$4.7 million from the original amortization schedule.

Current assets increased as the District transferred \$4.099 million to fund investment reserves to target levels, which have been invested in short-term securities as long-term yields are unattractive. Additionally, restricted investments for Sharon Heights Golf & Country Club's (SHGCC) deposit for the California Clean Water State Revolving Fund (SRF) Loan was transferred to a money market, considered short-term, as requested by SHGCC representatives.

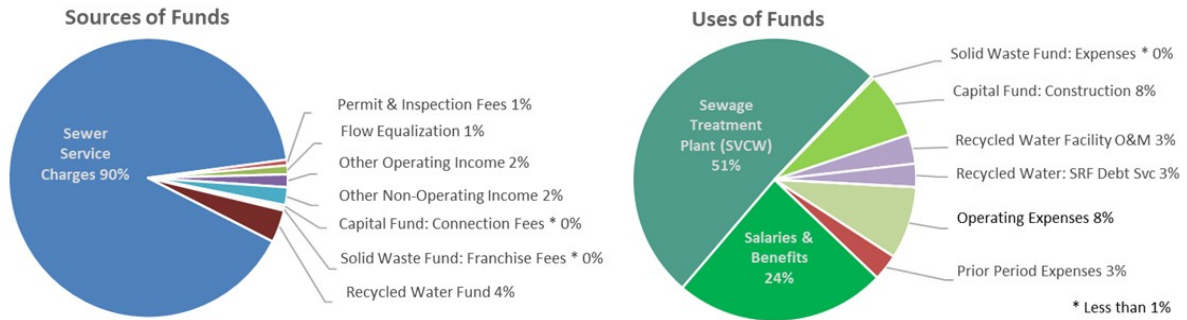
The position in the Silicon Valley Clean Water (SVCW) is based on the draft, unaudited, Analysis of Net Position [by member] for year ended June 30, 2021. Capital Assets, net of depreciation, decreased by \$1.5 million with capital additions of \$2.2 million and depreciation of \$3.7 million. Construction in Progress (CIP) of \$7.2 million in subsurface line projects were completed. Total liabilities decreased by \$5.86 million primarily due to the payoff of the District's PERS UAL, with \$383 thousand in current payments for FY 2020-21 and \$5.88 million in payoff of the long term pension liability, including \$1.6 million transferred from the District's Public Agency Retirement Services (PARS) trust account.

Table 1
Statement of Net Position

	FY 2020-21	FY 2019-20	Change	Percentage
Assets				
Current Assets	51,317,398	40,267,794	11,049,604	27%
Non-Current Assets	114,443,091	122,820,694	(8,377,603)	-7%
Total Assets	165,760,489	163,088,488	2,672,000	2%
Deferred Outflows of Resources	132,838	1,096,469	(963,631)	-88%
Current Liabilities	3,496,040	4,797,796	(1,301,756)	-27%
Non-Current Liabilities	18,392,345	22,945,957	(4,553,612)	-20%
Total Liabilities	21,888,385	27,743,753	(5,855,367)	-21%
Deferred Inflows of Resources	3,788	571,400	(567,612)	-99%
Net Position	144,001,153	135,869,805	8,131,349	6%

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2021

Changes in Net Position



The Statement of Revenue, Expense, & Changes in Net Position by Fund in Table 2 compares the Operating and other activities in Fiscal Year 2020-21 and 2019-20. Operating revenues increased by 4% due to a 1% increase in sewer service charges and 20% increase in other revenues. Total General Fund operating expenses, which include collection, general administration, and depreciation, increased \$613 thousand or 6% over the prior year, due to the 5% increase in depreciation. General Fund expenses, excluding depreciation, decreased 5%. The District's salary and benefits decreased 8%, even with union negotiated wage increases of 4%.

Sewage Treatment Plant is the wastewater transmission, treatment, and effluent disposal services is provided by Silicon Valley Clean Water (SVCW), 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 SVCW, the District is liable for its share of the operating expenses and debt. For the year ending June 30, 2021, the District's share was 23.38%. Sewer treatment plant expense includes all funds paid to or on behalf of SVCW, which decreased 35%, as the District paid \$6.4 million in fiscal year 2019-20 to avoid additional long-term debt.

The Capital Fund received connection fees of \$110 thousand, a decreased of 81% from the prior year, as a result of continuing decreases in new commercial and residential developments. The Solid Waste Fund represents the net solid waste collection franchise fees from Recology and direct expenses. The Recycled Water Fund represents the net activity for the Sharon Heights Recycled Water Facility (SHRWF), which is a partnership with Sharon Heights Golf & Country Club (SHGCC) to provide recycled water for irrigation. The \$22.4 million SHRWF was completed and accepted on July 27, 2020. Depreciation was \$700 thousand for the first year of operations.

Table 2
Statement of Revenue, Expense, & Change in Net Position

	FY 2020-21	FY 2019-20	Change	Percentage
Operating Revenues	32,175,127	30,911,792	1,263,335	4%
Operating Expenses	(11,172,896)	(10,560,063)	(612,832)	6%
Sewage Treatment Plant (SVCW)	(12,740,977)	(19,551,977)	6,810,999	-35%
Operating Income (Loss)	8,261,253	799,752	7,461,501	933%
Non-Operating Rev / Exp	709,797	9,997,633	(9,287,836)	-93%
General Fund	8,971,051	10,797,385	(1,826,335)	-17%
Capital Fund	110,097	572,970	(462,873)	-81%
Solid Waste Fund	19,800	49,713	(29,913)	-60%
Recycled Water Fund	(213,871)	2,429,741	(2,643,612)	-109%
Change in Net Position	8,887,077	13,849,809	(4,962,732)	-36%
Prior Period Adjustment	(755,728)	(1,443,710)	687,982	-48%
Change in Net Position - Adjusted	8,131,349	12,406,098	(4,274,750)	-34%

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2021

Budgetary Highlights

The District adopted the annual budget for fiscal year 2020-21 on June 10, 2020, after reviewing at a Budget Workshop with the Board of Directors on May 5, 2021. The budget is prepared on the accrual basis of accounting by Fund for operations and includes planned capital expenditures for the year and capital carryovers from the prior year. The District maintains separate long-term financial plans for vehicle and equipment replacement and multi-year capital projects. Table 3 shows a comparison of actual to budget for the General Fund and net of other Funds for the year ended June 30, 2021.

District operating revenue was 2% over budget. Total operating expenses were 9% higher than budgeted, including 5% increase in depreciation on completed CIP. Sewage treatment expenses were 3% lower than expected, due to refinancing of debt.

Connection fees to the Capital Fund were lower than anticipated, resulting in 56% under budget. The Solid Waste Fund Franchise fees were 3% under budget, but the District reduced direct expenses for rate studies, mailings to customers, and public relations. The Recycled Water Fund budget did not include depreciation of \$700 thousand and had anticipated a Sinking Fund from SHGCC for future maintenance, which was delayed.

Table 3
Actual vs. Budget Report

	FY 2020-21	Budget	Variance	Percentage
Operating Revenues	32,175,127	31,589,242	585,884	2%
Operating Expenses	(11,172,896)	(12,271,022)	1,098,126	-9%
Sewage Treatment Plant (SVCW)	(12,740,977)	(13,153,679)	412,701	-3%
Operating Income (Loss)	8,261,253	6,164,542	2,096,712	34%
Non-Operating Rev / Exp	709,797	63,000	646,797	1027%
General Fund	8,971,051	6,227,542	2,743,509	44%
Capital Fund	110,097	250,000	(139,903)	-56%
Solid Waste Fund	19,800	5,000	14,800	296%
Recycled Water Fund	(213,871)	(675,541)	461,670	-68%
Change in Net Position	8,887,077	5,807,001	3,080,076	53%
Prior Period Adjustment	(755,728)	-	(755,728)	
Change in Net Position - Adjusted	8,131,349	5,807,001	2,324,348	40%

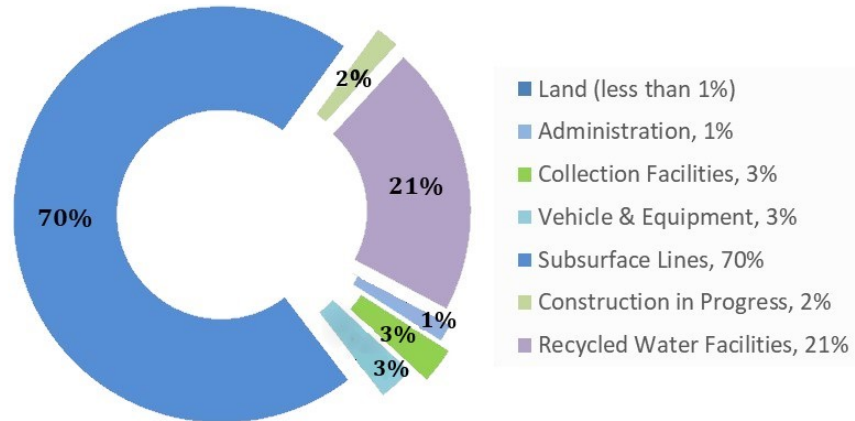
The District had \$25 million in Capital Fund balance, including \$18.5 million in carryover from fiscal year 2019-20 and \$6.5 million increase from fiscal year 2020-21. The Capital Fund is comprised of the net increase in the General Fund, less current capital expenditures, plus interest, and funds contributed or transferred to fund capital projects. Table 4 summarizes the capital budget for the fiscal year ended June 30, 2021. Capital project expenditures were \$7.5 million under budget as a result of delays caused by county and state shutdowns due to the COVID-19 pandemic.

Table 4
Capital Fund
Actual vs. Budget Report

	FY 2020-21	Budget	Variance	Percentage
Transfer from Operations	7,505,525	6,164,542	(1,340,984)	-18%
Capital Expenditures	(2,232,302)	(9,728,000)	(7,495,698)	336%
State Revolving Fund	19,263	-	(19,263)	
Connection Charges	110,097	250,000	139,903	127%
Interest Income	233,410	50,000	(183,410)	-79%
Transfers to Capital Reserves	883,500	1,244,000	360,500	41%
Change in Capital Asset Fund	6,519,493	(2,019,459)	(8,538,952)	-131%
Beginning Fund Balance	18,542,341	25,061,834	6,519,493	35%
Ending Fund Balance	25,061,834	23,042,375	(2,019,459)	-8%

West Bay Sanitary District
 Management's Discussion and Analysis
 June 30, 2021

Capital Assets



Capital Assets increased 2% before depreciation and decreased 2% net of accumulated depreciation. The District had capital expenditures of \$2.2 million, including \$1.85 million for capital projects for administration, collection facilities, vehicles and equipment, and replacement and rehabilitate of sewer infrastructure. Additionally, the District expended \$261 thousand on the Sharon Heights Recycled Water Facility, which is funded by a State of California, Clean Water State Revolving Fund (CWSRF) loan of \$17.3 million and Water Recycling Funding Program (WRFP) \$5.26 million grant. The District also expended \$88 thousand on the Bayfront Recycled Water Facility Project. Table 5 shows a summary of capital assets owned by the District as of June 30, 2021.

Table 5
Capital Assets

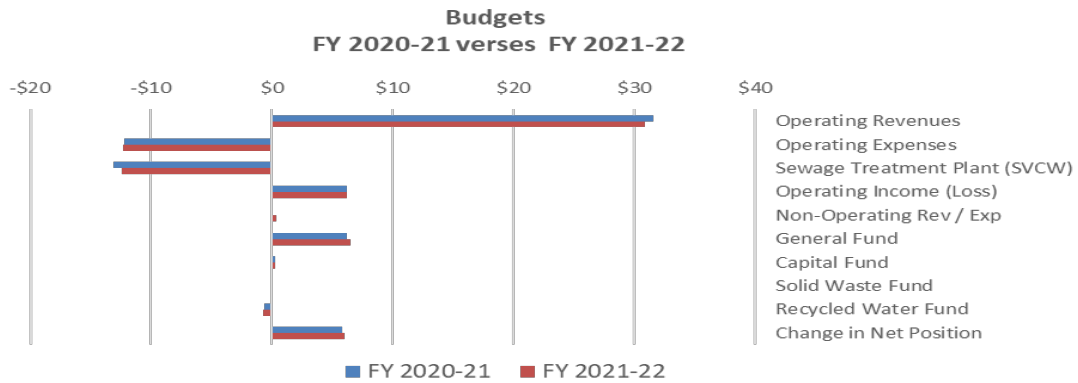
	FY 2020-21	FY 2019-20	Change	Percentage
Land	44,467	44,467	-	0%
Construction in Progress	2,367,198	30,305,139	(27,937,941)	-92%
Pump Stations	7,916,203	7,851,378	64,825	
Fleet	3,006,893	2,853,616	153,277	5%
Plant	1,381,277	1,353,895	27,381	2%
Buildings	3,049,594	3,025,084	24,510	1%
Flow Equal.	2,884,719	2,884,719	-	0%
Subsurface Lines	66,671,137	59,449,939	7,221,197	12%
Recycled Water Facilities	22,647,052		22,647,052	100%
Capital Assets	109,968,539	107,768,237	2,200,302	2%
Depreciation	(39,056,193)	(35,317,072)	(3,739,121)	11%
Net Capital Assets	70,912,346	72,451,165	(1,538,819)	-2%

Future Budget

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 and maintenance (O&M), and capital. General economic conditions have a limited effect on the District for sewer service charges. Accordingly, the District sets the sewer rates to its users to cover the costs of O&M and strives to stabilize capital costs with a ten year Master Plan and reserves for Rate Stabilization and Capital.

The District provides an essential government function, therefore essential sanitary and sewer services have continued during the shutdown due to the COVID-19 Declaration of National Emergency and Shelter in Place Orders effective March 19, 2020, with minimal disruption, completing 100% of internal maintenance and performance goals for 2020 and completing 98% in 2021.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2021



While the District continued to operate, the shutdown effected vendors, resulting in higher costs for personal protective equipment (PPE) and some delays, especially in capital projects. Suspension in private construction reduces connection fees and anticipated sewer service charges. Additionally, many commercial customers were shutdown, resulting in lower water usage, which reduces sewer service charges in the following year. Commercial customers represent 3% of all customers and 23% of revenue, in FY 2020-21. In FY 2021-22, while the number of commercial customers is unchanged, the revenue received is expected to decrease by \$1.9 million. Sewer Service Fees for residential customers are not impacted, as they pay flat rates. The District increased sewer service charges 4% effective 7/1/2020 and 2.5% effective 7/1/2021. Table 6 shows a budget comparison from fiscal year 2020-21 to fiscal year 2021-22. The District anticipates a 2% decrease in Operating Revenues for fiscal year 2021-22. Operating Expenses were kept flat for fiscal year 2021-22, with minor changes.

Sewage Treatment Plant (SVCW) expenses will decrease due to refinancing of debt and reduced flows from the District. SVCW has been able to take advantage of lower interest rates, refinancing the Regional Environmental Sewer Conveyance Upgrade project, which replaces a 60-year-old sewer main, rehabilitates and reduces the number of pump stations, and builds a new headworks pretreatment facility in the front of the existing treatment plant. The re-execution of a \$218 million WIFIA Loan, reducing the interest rate from 2.40% to 1.41%, saves the District over \$483 thousand annually and almost \$15 million over the life of the District's \$80.7 million share. Additionally, refunding existing bonds and SRF loan with a new bond issue in 2020 and a SRF loan at 0.90% interest, will save the District an additional \$21 million in interest expense over the next 37 years.

Non-Operating Revenue budget increased to account for interest income and changes in market value on the \$62.6 million in District reserves, as of June 30, 2021; interest was undervalued in fiscal year 2020-21.

Table 6
Budget Reports

	FY 2020-21	FY 2021-22	Change	Percentage
Operating Revenues	31,589,242	30,872,898	(716,345)	-2%
Operating Expenses	(12,271,022)	(12,307,711)	(36,689)	0%
Sewage Treatment Plant (SVCW)	(13,153,679)	(12,396,490)	757,189	-6%
Operating Income (Loss)	6,164,542	6,168,697	4,155	0%
Non-Operating Rev / Exp	63,000	345,000	282,000	82%
General Fund	6,227,542	6,513,697	286,155	4%
Capital Fund	250,000	250,000	-	0%
Solid Waste Fund	5,000	(5,090)	(10,090)	198%
Recycled Water Fund	(675,541)	(752,902)	(77,361)	10%
Change in Net Position	5,807,001	6,005,705	198,704	3%

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2021

Factors Bearing on the Future

The District is committed to its mission of protecting public health and the environment. In 2020, the District completed the Sharon Heights Recycled Water Facility (SHRWF), with 0.5 million gallons per day (MGD) recycled water capacity. Through June 20, 2021, 46.4 million gallons of recycled water were delivered to the SHGCC pond for irrigation. The District is currently designing a 0.6 MGD recycled water treatment and distribution facility, with the ability to expand to 0.8 MGD, on the Flow Equalization and Resource Recovery Facility (FERRF) site. The District has identified interested developers for 56% of the capacity, with 44% remaining for existing and new customers. Recycling water in the District system reduces future processing costs to all sewer service customers, by reducing flows and ultimately discharges destined to the San Francisco Bay.

In December 2018, the District Board provided direction to include a “Living Shoreline” to levee improvement plans to enhance the shoreline, while providing flood and sea level rise protection at FERRF. As part of a regional effort to extend resilient living shoreline around San Francisco Bay, the District has worked with experts to design an Ecotone Levee with 3.5 acre living shoreline on the north side of the project site. This will protect the site from 100-year floods, protect the bay from contamination of raw sewage occurring if storm surge and sea level rise breach the flow equalization ponds, while mitigating loss of wetlands and conserving and creating marsh and upland habitat.

The District received the Collection System of the Year award for 2020-2021 from the California Water Environmental Association (CWEA) in recognition of outstanding maintenance programs, regulatory compliance, and safety & training procedures for small collection systems. This culminated from years of proactive planning, hard-working dedicated staff, and an investment in physical and intangible assets. To this end, the District will continue to rehabilitate and protect its assets, sustain support for water reclamation efforts that provide regional sustainability, and provide award-winning service to the community for years to come.



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

BASIC FINANCIAL STATEMENTS

West Bay Sanitary District
Statement of Net Position
June 30, 2021
(With Comparative Totals as of June 30, 2020)

Assets	2021	2020
Current Assets:		
Cash and cash equivalents	\$ 41,002,499	\$ 36,868,824
Restricted cash and investments	1,519,765	1,762,989
Accounts receivable	671,544	1,801,786
SWRCB receivable	-	640,886
Interest receivable	156,960	249,607
Prepaid expenses and other current assets	84,094	706,691
Total Current Assets	<u>43,434,862</u>	<u>42,030,783</u>
Noncurrent Assets:		
Investments	21,893,652	19,384,701
Investment in Silicon Valley Clean Water	29,519,631	29,221,839
Capital assets:		
Non-depreciable	2,411,664	7,964,092
Depreciable net of accumulated depreciation	68,500,682	64,487,073
Total Capital Assets - Net	<u>70,912,346</u>	<u>72,451,165</u>
Total Noncurrent Assets - Net	<u>122,325,629</u>	<u>121,057,705</u>
Total Assets	<u>\$ 165,760,491</u>	<u>\$ 163,088,488</u>
 Deferred Outflows of Resources		
OPEB adjustments	\$ 132,838	\$ 63,633
Pension adjustments	-	1,032,836
Total Deferred Outflows of Resources	<u>\$ 132,838</u>	<u>\$ 1,096,469</u>
 Liabilities		
Current Liabilities:		
Accounts payable	\$ 4,359,021	\$ 4,162,801
Payroll and related liabilities	215,374	144,720
SHGCC SRF loan payment advance - current	198,877	135,112
Construction deposits	-	17,381
Accrued Interest	-	36,292
Compensated absences payable - current	380,051	150,745
Total Current Liabilities	<u>5,153,323</u>	<u>4,647,051</u>
Noncurrent Liabilities:		
Net OPEB liability	118,683	111,239
Net pension liability	-	5,494,504
State Revolving Fund Loan	16,616,382	16,597,119
SHGCC SRF loan payment advance - noncurrent	-	743,095
Compensated absences payable - noncurrent	-	150,744
Total Noncurrent Liabilities	<u>16,735,065</u>	<u>23,096,701</u>
Total Liabilities	<u>\$ 21,888,388</u>	<u>\$ 27,743,752</u>
 Deferred Inflows of Resources		
OPEB adjustments	\$ 3,788	\$ 5,899
Pension adjustments	-	565,501
Total Deferred Inflows of Resources	<u>\$ 3,788</u>	<u>\$ 571,400</u>
 Net Position		
Net Investment in Capital Assets	\$ 54,295,964	\$ 55,854,046
Unrestricted:		
Capital fund budget	25,061,834	21,062,051
Invested in Silicon Valley Clean Water	29,519,631	29,221,839
Operations	9,395,827	9,365,601
Unreserved	25,727,897	20,366,268
Total Net Position	<u>\$ 144,001,153</u>	<u>\$ 135,869,805</u>

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

West Bay Sanitary District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2021
(With Comparative Totals for the Fiscal Year Ended June 30, 2020)

	2021	2020
Operating Revenues:		
Service charges	\$ 31,090,378	\$ 30,003,748
Flow equalization uses	355,000	351,138
Permit and inspection fees and other services	224,200	148,144
Other operating revenues	610,036	528,977
Total operating revenues	32,279,614	31,032,007
Operating Expenses:		
Sewage treatment plant (SVCW)	12,740,978	19,551,978
Sewage collection and general administration:		
Salaries and benefits	6,200,238	5,894,953
Materials and supplies	501,554	446,835
Insurance	219,914	131,737
Contract services	331,601	388,061
Professional services	292,933	306,237
Repairs and maintenance	297,135	271,062
Utilities	390,792	145,849
Other operating expenses	659,710	1,002,564
Total sewage collection and general administration	8,893,877	8,587,298
Depreciation	3,739,121	2,043,269
Total operating expenses	25,373,976	30,182,545
Operating Income (Loss)	6,905,638	849,462
Nonoperating Revenues (Expenses):		
Investment income	363,553	1,238,254
Interest expense	(125,580)	(146,255)
Increase (decrease) of equity in Silicon Valley Clean Water	297,792	8,506,285
Other nonoperating revenues	672,665	277,955
Total nonoperating revenues (expenses)	1,208,430	9,876,239
Income before contributions	8,114,068	10,725,701
Recycled Water Fund: Capital Contributions	662,911	2,551,135
Capital Fund: Connection Fees	110,097	572,970
Change in Net Position	8,887,076	13,849,806
Beginning Net Position	135,869,805	123,463,709
Prior Period Adjustments	(755,728)	(1,443,710)
Beginning Net Position - As Adjusted	135,114,077	122,019,999
Ending Net Position	\$ 144,001,153	\$ 135,869,805

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, 2021
(With Comparative Totals for the Fiscal Year Ended June 30, 2020)

	2021	2020
Cash Flows from Operating Activities:		
Cash received from customers	\$ 33,392,475	\$ 29,584,056
Cash payments to suppliers for goods and services	(14,615,800)	(23,996,158)
Cash payments to employees for services	(4,288,579)	(3,969,248)
Cash payments of benefits on behalf of employees	(6,853,484)	(1,080,896)
Net Cash Provided (Used) by Operating Activities	<u>7,634,612</u>	<u>537,754</u>
Cash Flows from Capital and Related Financing Activities:		
Cash received from connection fees	110,097	572,970
Cash received from the State Revolving Fund loan	19,263	8,262,823
Cash received from capital contributions	662,911	2,551,135
SHGCC SRF loan payment advance	(679,330)	878,207
Interest payments	(161,872)	-
Cash received on the sale of capital assets	-	4,907
Purchases and construction of capital assets	(2,200,302)	(10,382,558)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,249,233)</u>	<u>1,887,484</u>
Cash Flows from Investing Activities:		
Transfers to investment accounts	(3,738,500)	(3,812,408)
Transfers from investment accounts	1,321,758	5,319,929
Investment income	1,165,038	1,118,875
Net Cash Provided (Used) by Investing Activities	<u>(1,251,704)</u>	<u>2,626,396</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,133,675	5,051,634
Cash and Cash Equivalents Beginning	<u>36,868,824</u>	<u>31,817,190</u>
Cash and Cash Equivalents Ending	<u>\$ 41,002,499</u>	<u>\$ 36,868,824</u>
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:		
Operating Income (Loss)	\$ 6,905,638	\$ 849,462
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	3,739,121	2,043,269
Prior period adjustment - pensions	(755,728)	-
Net change in:		
Accounts receivable	1,130,242	(1,456,660)
Prepaid expenses and other current assets	622,597	(674,509)
Deferred outflows of resources	963,631	54,813
Accounts payable	196,220	(1,077,326)
Payroll and related liabilities	70,654	141,019
Construction deposits	(17,381)	8,709
Compensated absences	78,562	(2,979)
Net OPEB liability	7,444	55,368
Net pension liability	(4,738,776)	439,785
Deferred inflows of resources	(567,612)	156,803
Net Cash Provided (Used) by Operating Activities	<u>\$ 7,634,612</u>	<u>\$ 537,754</u>

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

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

NOTE 1 - NATURE OF ORGANIZATION

West Bay Sanitary District (District) is a State of California Special District 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 a solid waste organization 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 emphasized 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.

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred outflow of resources related to the recognition of the net pension liability and net OPEB liability reported in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the District's benefit plans liability reported in the Statement of Net Position.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

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 Governmental Accounting Standards Board (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 Generally Accepted Accounting Principles (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—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. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.
- 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.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

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 collected for providing sewer services within the District's territory. The majority of revenues are collected by the County of San Mateo through annual property tax billings. Customers not included in tax roll are manually billed by 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 the Local Agency Investment Fund (LAIF) that is regulated by California Government Code section 16429 under the oversight of the Treasurer of the State of California. Investment in LAIF are reported at the market value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

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

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

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

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

Accounts 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, 2021.

Capital Assets

Property, plant and equipment are recorded at cost or, if contributed, at estimated value at the time of acquisition 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	3-30 years
Buildings	5-30 years
Flow equalization facilities	10-30 years
Subsurface lines	5-50 years

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

Long-Term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Compensated Absences

Compensated absences include vacation leave, floating holidays and comp time. 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.

GASB Statement No. 68, *accounting and financial reporting for Pensions – an amendment of GASB Statement No. 27* requires that the reported results must pertain to liability and asset information within certain defined time frames. During the fiscal year ended June 30, 2021, the District obtained an actuarial valuation for its pension plan in order determine the amount required to fully fund its unfunded pension liability. As of June 30, 2021 the District had zero unfunded pension liability. This funding resulted in a \$755,728 reduction in net position for pension accruals related to prior periods. For the period, the following time frames were used.

Valuation Date	June 30, 2019
Measurement Date	July 1, 2021
Measurement Period	July 1, 2019 to June 30, 2021

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions are based on when they are due and payable in accordance with the benefit terms for the measurement period included in the OPEB plan's actuarial reports. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

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.

Upcoming New Accounting Pronouncements

GASB issued Statement No. 87, Leases

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2019 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. Management is in the process of evaluating the impact of this statement on the District's financial statements.

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

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2019 but have been delayed to periods beginning after December 15, 2020, pursuant to GASB Statement No. 95. Earlier application is encouraged. Management does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 91, Conduit Debt Obligations

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement were initially to be effective for financial statements for periods beginning after December 15, 2020 but have been delayed to periods beginning after December 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. Management does not believe this statement will have a significant impact on the District's financial statements.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

GASB Statement No. 92, *Omnibus 2020*

The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. Management is in the process of evaluating the impact of this statement on the District's financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*

This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this Statement were initially to be effective for financial statements for periods beginning after June 15, 2020 but have been delayed to periods beginning after June 15, 2021, pursuant to GASB Statement No. 95. Earlier application is encouraged. Management does not believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 94, *Public-Private Partnerships and Public-Public Partnerships and Availability Payment Arrangements*

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are to be effective for financial statements for periods beginning after June 15, 2022. Earlier application is encouraged. Management is in the process of evaluating the impact of this statement on the District's financial statements.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32

The statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. Management does not believe this statement will have a significant impact on the District’s financial statements.

The requirements of this Statement are effective as follows:

- The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately
- The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021
- All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021

NOTE 3 - CASH AND INVESTMENTS

The District’s cash and investments consisted of the following as of June 30, 2021 and 2020:

Description	Rating	Fair Value June 30, 2021	Maturities			Concen- trations
			12 Months or Less	13 - 24 Months	25 - 60 Months	
Bank of the West Investments:						
Fixed Income	AA+/BBB	\$ 19,473,657	\$ 5,475,573	\$ 7,505,220	\$ 6,492,864	30.23%
Cash	N/A	2,419,995	2,419,995	-	-	3.76%
Total Bank of West Investments	AAA	21,893,652	7,895,568	7,505,220	6,492,864	33.99%
Cash and Cash Equivalents:						
Cash on hand and in banks	N/A	1,345,263	1,345,263	-	-	2.09%
Money Market	N/A	2,098,530	2,098,530	-	-	3.26%
Cash with fiscal agents	N/A	237,452	237,452	-	-	0.37%
LAIF	N/A	38,840,019	38,840,019	-	-	60.30%
Petty Cash	N/A	1,000	1,000	-	-	0.00%
Total Cash and Cash Equivalents		42,522,264	42,522,264	-	-	66.01%
Total Cash and Investments		\$ 64,415,916	\$ 50,417,832	\$ 7,505,220	\$ 6,492,864	100.00%

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

Cash Deposits

Interest bearing bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation (“FDIC”). The bank balance of the District’s cash in bank, which was \$1,565,750, exceeded the insured limit by \$1,315,750 as of June 30, 2021. None of the District’s deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts. All of the District’s accounts met the collateral and categorization requirements as noted in the following paragraphs.

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 reviews the investment balances. Investments are ratified quarterly by the Board.

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Passbook Savings Account Demand Deposits	N/A	None	None
California Asset Management Program (CAMP)	N/A	None	None

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

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.

California Local Agency Investment Fund

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, defined as follows:

- Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

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.

LAIF allows local agencies such as the District to participate in the Pooled Money Investment Account (PMIA) managed by the State Treasurers Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2021, was approximately \$37 billion. Of that amount, 100% is invested in non-derivative financial products. The balance in LAIF is available for withdrawal on demand. The PMIA balance, as of June 30, 2021, was approximately \$193 billion.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2021

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due to failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be 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 South Bayside System Authority, was founded in 1975 as the successor to the Strategic Consolidation Sewerage Plan, from which SVCW took title to property including sanitary sewerage pumping stations, as well as transmission and outfall facilities originally constructed by that plan. SVCW is a joint exercise of powers agency between the District, the Cities of Belmont, Redwood City, and San Carlos. The Agency's wastewater treatment plant is in Redwood City and serves more than 220,000 people and businesses in service areas. SVCW provides wastewater transmission, treatment, and effluent disposal services member agencies. At June 30, 2021 and 2020, the District had approximately 23.38% and 23.59%, respectively, in equity interest in SVCW, which is reported using the equity method of accounting. The District's investment in SVCW at June 30, 2021 and 2020 was \$29,519,631 and \$29,221,839, respectively, as reflected on the statement of net position. The change in the investment for the years ended June 30, 2021 and 2020 was a decrease of \$297,792 and an increase of \$8,506,285, respectively, as reflected in the statement of revenues, expenses and changes in net position. During the year ended June 30, 2021, the District contributed \$7,640,520 toward the cost of operating and maintaining the facility and paid debt principal and interest of \$5,100,458 that included the State revolving fund loan and the financing agreements to finance the construction and rehabilitation of the SVCW's wastewater system.

The 2021 changes in the District's equity share was mostly attributed to the fact that not all members share in the long-term debt, only the net position, or equity, of the participating members decreases

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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, 2020, (most recent information available):

	June 30, 2020
Total Assets	\$ 704,159,441
Deferred Outflows of Resources	11,547,297
Total Liabilities	591,228,059
Deferred Inflows of Resources	1,366,694
Total Equity	123,111,985
Total Revenues	75,716,965
Total Expenditures	57,366,429

Financial statements may be obtained by mailing a request to Silicon Valley Clean Water, 1400 Radio Road, Redwood City, CA 94065.

The District entered into financing agreements with SVCW for repayment of the District’s allocated share of the 2009, 2014, 2015 and 2018 bonds in the amount of \$95,717,502, including principal and interest. The financing agreements are secured by a pledge of the District’s sewer Revenue as defined under the financing agreements. For fiscal year 2020, gross Sewer Fund revenues, including operating revenues and non-operating interest earnings, amounted to \$31,090,378. The annual debt service commitment of \$3,087,661 is summarized as follows:

Fiscal year ending:	Principal	Interest
2028	\$ 1,480,236	\$ 1,607,425
2029	1,515,762	1,571,900
2030	1,552,140	1,535,521
2031	1,589,391	1,498,270
2032	1,627,537	1,460,125
2033-2037	8,742,688	6,695,619
2038-2042	9,843,391	5,594,916
2043-2047	11,082,673	4,355,634
2048-2052	12,477,981	2,960,326
2053-2057	14,048,957	1,389,350
2058-2059	3,015,294	72,367
Total debt service	\$ 66,976,050	\$ 28,741,453

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

The District's capital assets consisted of the following as of June 30, 2021:

Description	Balance June 30, 2020	Additions	Adjustments & Deletions	Balance June 30, 2021
Non-depreciable Capital Assets:				
Land	\$ 44,467	\$ -	\$ -	\$ 44,467
Construction in progress	30,305,139	1,962,307	(29,900,249)	2,367,197
Total non-depreciable capital assets	30,349,606	1,962,307	(29,900,249)	2,411,664
Depreciable Capital Assets:				
Pump stations	7,851,378	64,825	-	7,916,203
Fleet	2,853,616	153,277	-	3,006,893
Plant and administration facilities	1,353,895	27,382	-	1,381,277
Buildings	3,025,084	24,510	-	3,049,594
Flow equalization facilities	2,884,719	-	-	2,884,719
Subsurface lines	59,449,939	7,253,198	(32,000)	66,671,137
SHGCC Recycled Water Facility	-	22,647,052	-	22,647,052
Total depreciable capital assets	77,418,631	30,170,244	(32,000)	107,556,875
Less accumulated depreciation for:				
Pump stations	(3,498,702)	(265,364)	-	(3,764,066)
Fleet	(1,831,765)	(195,301)	-	(2,027,066)
Plant and administration facilities	(925,787)	(95,360)	-	(1,021,147)
Buildings	(1,378,295)	(97,069)	-	(1,475,364)
Flow equalization facilities	(2,602,687)	(91,771)	-	(2,694,458)
Subsurface lines	(25,079,836)	(2,295,972)	-	(27,375,808)
SHGCC Recycled Water Facility	-	(698,284)	-	(698,284)
Total accumulated depreciation	(35,317,072)	(3,739,121)	-	(39,056,193)
Total depreciable capital assets - net	42,101,559	26,431,123	(32,000)	68,500,682
Total capital assets - net	\$ 72,451,165	\$ 28,393,430	\$ (29,932,249)	\$ 70,912,346

Depreciation expense for the year ended June 30, 2021 and 2020 was \$3,739,121 and \$2,043,269, respectively.

The following details construction in progress as of June 30, 2021:

Project	Balance
FEF Metal Storage Building	\$ 139,099
Levee Design	491,316
Gilbert Bay North / North Bay / Ringwood	1,335,252
Bayside	401,530
Total Construction in Progress	<u>\$ 2,367,197</u>

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NOTE 6 - NONCURRENT LIABILITIES

The District's noncurrent liabilities consisted of the following as of June 30, 2021:

Description	Balance		Adjustments/ Deductions	Balance	
	July 01, 2020	Additions		June 30, 2021	Due Within One Year
Net OPEB Liability	\$ 111,239	\$ 155,767	\$ 148,323	\$ 118,683	\$ -
Net Pension Liability	5,494,504	2,194,548	7,689,052	-	-
State Revolving Fund Loan	16,597,119	1,323,060	1,303,797	16,616,382	-
Compensated Absences	301,489	78,562	-	380,051	380,051
Total Noncurrent Liabilities	<u>\$ 22,504,351</u>	<u>\$ 3,751,937</u>	<u>\$ 9,141,172</u>	<u>\$ 17,115,116</u>	<u>\$ 380,051</u>

State Revolving Fund Loan

The District has entered into a \$22,595,000 agreement with the State Water Resources Control Board (SWRCB or State Revolving Fund Loan) to finance the Sharon Heights Recycled Water project. The final funding includes a grant of \$5,259,800, federal loan of \$987,014, and state loan of \$16,020,443. Through June 30, 2021, the SRF loan balance was \$ 16,616,382. The loan funds and accrued interest will be repaid in annual installments commencing on March 31, 2021, one year after the state recognized the project completion on March 31, 2020. Sharon Heights Golf & Country Club will pre-fund the annual SRF loan payments. The District accepted project completion July 26, 2020. The following summarizes the total debt service to be repaid by June 30, 2050:

Fiscal Year Ending June 30:	Principal	Interest	Total
2022	\$ 496,747	\$ 166,164	\$ 662,911
2023	501,715	161,196	662,911
2024	506,732	156,179	662,911
2025	511,799	151,112	662,911
2026	516,917	145,994	662,911
2027-31	2,663,164	651,390	3,314,554
2032-36	2,799,012	515,542	3,314,554
2037-41	2,941,790	372,764	3,314,554
2042-46	3,091,851	222,704	3,314,555
2047-50	2,586,655	64,988	2,651,643
Total Debt Service	<u>\$ 16,616,382</u>	<u>\$ 2,608,033</u>	<u>\$ 19,224,415</u>

West Bay Sanitary District
Notes to Financial Statements
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NOTE 7 - BOARD COMMITMENTS OF NET POSITION

Commitments are imposed by the District’s Board to reflect future spending plans or concerns about the availability of future resources. Commitments may be modified, amended or removed by Board action. Commitments for future capital assets replacement is the portion of net position to be used for new equipment and for emergency and scheduled replacement of capital facilities paid from connection fees. Commitments for operations have been set-aside to reserve approximately five months of operating expenses. The Board committed the following unrestricted net position as of June 30, 2021:

Description	Balance
Capital fund budget	\$ 25,061,834
Invested in Silicon Valley Clean Water	29,519,631
Operations	9,395,827
Total Committed Net Unrestricted Position	<u>\$ 63,977,292</u>

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 participates in a joint powers agreement (JPA) with other sanitary districts in the State to form California Sanitation Risk Management Authority (CSRMA). The purpose of CSRMA is to spread the adverse effects of losses among the member entities and to purchase excess insurance as a group, thereby reducing its cost. The District is insured for the costs of claims through CSRMA and commercial insurance carriers for the following:

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

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The District has incurred two claims that have not exceeded its insurance coverage limits in the last three years.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2020 (most recent information available):

	June 30, 2020
Total Assets	\$ 29,737,991
Total Liabilities	22,524,920
Total Equity	7,213,071
Total Revenues	14,509,754
Total Expenditures	15,266,567

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. Tier 2 and PEPRA members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits until the age of 60 and 62 respectfully. All members are eligible for non-duty disability benefits after 5 years of service. 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 Plans’ provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous		
	Tier 1	Tier 2	PEPRA
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	3 Years	3 Years	3 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a			
% of eligible compensation	2.50%	2.00%	2.00%
Required employee contribution rates	8.000%	7.000%	6.750%
Required employer contribution rates	11.742%	8.794%	7.732%

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Employees Covered - At June 30, 2021, the following employees were covered by the benefit terms for the Plan:

	Miscellaneous
Active	30
Transferred	9
Separated	13
Retired	25
Total	77

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, 2021, the District made the following payments for the unfunded accrued liability (UAL) and current pension contributions:

	Miscellaneous
Employer UAL	\$ 6,259,864
Employer Contributions	316,582
Employee Contributions	265,721
Total	\$ 6,842,167

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

As of June 30, 2021, the District had fully funded its proportionate share of net pension liability. 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, 2020, 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, 2019 rolled forward to June 30, 2020 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, 2020 and 2021 was as follows:

	Miscellaneous
Proportion - June 30, 2020	0.13721%
Proportion - June 30, 2021	0.14056%
Change - Increase/(Decrease)	0.00335%

West Bay Sanitary District
Notes to Financial Statements
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For the year ended June 30, 2021, the District recognized pension expense of \$771,209.

At June 30, 2021, the District reported no deferred outflow of resources or deferred inflows of resources related to pensions, as a result of fully funding its unfunded pension liability.

Actuarial Assumptions - The total pension liabilities in the June 30, 2019, actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.15% (2)
Mortality	(3)

- (1) Varies by entry age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

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

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

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

<u>Asset Class (a)</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10 (b)</u>	<u>Real Return Years 11+ (c)</u>
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100.00%</u>		

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

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.

Benefits Provided

The District contributes toward post-retirement benefits for employees who retire under PERS after age 50 and choose coverage under CalPERS medical plans. The District pays the amount of the PEMHCA minimum contribution, which is \$143 per month and is expected to increase in future years. Payments are made for the lifetime of the retired employee and covered dependent spouse (or domestic partner), provided that they remain covered under CalPERS medical plans. Retirees are required to pay the balance of the monthly medical premiums. The District does not provide any other post-retirement health and welfare benefits.

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

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Employees Covered by Benefit Terms

At June 30, 2019 (the valuation date), the benefit terms covered the following employees:

Active employees	26
Inactive employees	6
Total employees	32

Contributions

The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions during the year were \$87,458. Total contributions included in the measurement period were \$63,633. The actuarially determined contribution for the measurement period was \$17,602. The District's contributions were .14% of covered employee payroll during the fiscal year ended June 30, 2021. Employees are not required to contribute to the plan.

Actuarial Assumptions

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

Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll,
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.75%
Payroll Increases	3.00%
Healthcare Trend Rate	5.00%
Investment Rate of Return	6.00%
Mortality	2014 CalPERS OPEB
Retirement	2017 CalPERS OPEB Model for miscellaneous public employees with 2.5% at 55

Discount Rate

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

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Long-Term Expected Rate of Return

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

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

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

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2019 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 (valuation date) for the fiscal year ended June 30, 2021 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2021:

Fiscal Year Ended June 30, 2021 (Measurement Date June 30, 2020)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2020	\$ 374,279	\$ 263,040	\$ 111,239
Service cost	7,254	-	7,254
Interest in Total OPEB Liability	18,732	-	18,732
Employer contributions	-	5,120	(5,120)
Balance of diff between actual and exp experience	-	-	-
Balance of changes in assumptions	-	-	-
Actual investment income	-	13,423	(13,423)
Benefit payments	(7,850)	(7,850)	-
Net changes	18,137	10,693	7,444
Balance at June 30, 2021	\$ 392,416	\$ 273,733	\$ 118,683
Covered Employee Payroll	\$ 3,808,342		
Total OPEB Liability as a % of Covered Employee Payroll	10.30%		
Plan Fid. Net Position as a % of Total OPEB Liability	69.76%		
Service Cost as a % of Covered Employee Payroll	0.19%		
Net OPEB Liability as a % of Covered Employee Payroll	3.12%		

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Deferred Inflows and Outflows of Resources

At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 45,380	\$ -
Difference between actual and expected earnings	-	1,763
Change in assumptions	-	2,025
OPEB contribution subsequent to measurement date	87,458	-
Totals	\$ 132,838	\$ 3,788

Of the total amount reported as deferred outflows of resources related to OPEB, \$87,458 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2022.

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

Year Ended June 30,	
2022	\$ 4,467
2023	6,513
2024	6,107
2025	6,283
2026	6,283
Thereafter	11,939
Total	\$ 41,592

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2021:

Service cost	\$ 7,254
Interest in TOL	18,732
Expected investment income	(13,423)
Difference between actual and expected experience	6,577
Difference between actual and expected earnings	(1,818)
Change in assumptions	(292)
OPEB Expense	\$ 17,030

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The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2021:

Net OPEB liability ending		\$	118,683
Net OPEB liability beginning			(111,239)
Change in net OPEB liability			7,444
Changes in deferred outflows			4,354
Changes in deferred inflows			112
Employer contributions and implicit subsidy			5,120
OPEB Expense			\$ 17,030

Sensitivity to Changes in the Discount Rate

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

	Discount Rate		
	(1% Decrease)	6.00%	(1% Increase)
Net OPEB Liability (Asset)	\$ 175,650	\$ 118,683	\$ 72,464

Sensitivity to Changes in the Healthcare Cost Trend Rates

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

	Trend Rate		
	(1% Decrease)	5.00%	(1% Increase)
Net OPEB Liability (Asset)	\$ 73,909	\$ 118,683	\$ 173,970

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 (SHGCC) 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 has received a grant easement in perpetuity for the location of the recycled water treatment facility and West Bay has ownership of the treatment facility and all the recycled water, with the Club's right to receive recycled water.

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

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Through June 30, 2021, total costs for the designed-build phase were as follows:

Description	Design/Build Phase
Procurement	\$ 18,882
Project Management	1,460,876
Legal	58,903
Water Sampling	63,744
Audit Fees	9,750
Civil Engineers	195,309
Inspection	20,230
General Construction	20,744,677
PG&E	74,681
Total	<u>\$ 22,647,052</u>

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Litigation

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

Construction Related Contracts

The District was obligated to pay multiple contractors \$4,669,101 from contracts totaling \$6,373,303 as of June 30, 2021.

NOTE 14 - PRIOR PERIOD ADJUSTMENTS

As described in Note 2, the District reduced its beginning net position by \$755,728 as a result of fully funding its unfunded pension liability during the fiscal year ended June 30, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

West Bay Sanitary District
Schedule of Pension Contributions - CalPERS
June 30, 2021

Miscellaneous Plan							
Plan Measurement Date	2014	2015	2016	2017	2018	2019	2020
Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021
Contractually Required Contributions	\$ 368,713	\$ 399,280	\$ 387,500	\$ 413,896	\$ 297,313	\$ 295,459	\$ 398,336
Contributions in Relation to Contractually Required Contributions	368,713	399,280	387,500	413,896	297,313	295,459	6,592,343
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,194,007)</u>
Covered Payroll	\$ 2,411,343	\$ 2,544,628	\$ 2,799,216	\$ 2,795,654	\$ 2,806,611	\$ 3,264,521	\$ 3,436,890
Contributions as a % of Covered Payroll	15.29%	15.69%	13.84%	14.80%	10.59%	9.05%	191.81%

Notes to Schedule:

Valuation Date: June 30, 2019

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
3.8 Years Remaining Amortization Period
Inflation Assumed at 2.5%
Investment Rate of Returns set at 7.15%
CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of

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

The CalPERS discount rate was increased from 7.5% to 7.65% in the District's fiscal year 2016 and then decreased from 7.65% to 7.15% in the District's fiscal year 2018.

The CalPERS inflation assumption was decreased from 2.75% to 2.50% during the District's fiscal year 2019.

The CalPERS mortality assumptions was adjusted in the District's fiscal year 2019.

West Bay Sanitary District
 Schedule of Proportionate Share of Net Pension Liability
 June 30, 2021

Miscellaneous and Safety Plan							
Plan Measurement Date	2014	2015	2016	2017	2018	2019	2020
Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021
Proportion of Net Pension Liability	0.10822%	0.12849%	0.12750%	0.12991%	0.12991%	0.13721%	0.14056%
Proportionate Share of Net Pension Liability	\$ 2,674,755	\$ 3,524,991	\$ 4,429,092	\$ 5,120,961	\$ 5,054,719	\$ 5,494,504	\$ -
Covered Payroll	\$ 2,339,003	\$ 2,411,343	\$ 2,544,628	\$ 2,799,216	\$ 2,795,654	\$ 2,806,611	\$ 3,264,521
Proportionate Share of NPL as a % of Covered Payroll	114.35%	146.18%	174.06%	182.94%	180.81%	195.77%	181.61%
Plan's Fiduciary Net Position as a % of the TPL	81.15%	78.29%	73.58%	72.32%	73.42%	73.03%	72.52%

Fiscal year 2015 was the first year of implementation, therefore only six years are shown.
 The CalPERS discount rate was increased from 7.5% to 7.65% in the District's fiscal year 2016 and then decreased from 7.65% to 7.15% in the District's fiscal year 2018.
 The CalPERS mortality assumptions was adjusted in the District's fiscal year 2019.

West Bay Sanitary District
Schedule of OPEB Contributions
June 30, 2021

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarially determined contribution (ADC)	\$ 11,604	\$ 11,579	\$ 16,607	\$ 17,602
Less: actual contribution in relation to ADC	(7,860)	(9,418)	(5,120)	(5,120)
Contribution deficiency (excess)	<u>\$ 3,744</u>	<u>\$ 2,161</u>	<u>\$ 11,487</u>	<u>\$ 12,482</u>
Covered employee payroll	\$ 2,795,654	\$ 2,806,611	\$ 3,697,419	\$ 3,808,342
Contributions as a percentage of covered employee payroll	0.28%	0.34%	0.14%	0.13%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2019
Measurement Date:	June 30, 2019
Actuarial Cost Method	Entry-Age Normal
Amortization Period	20 years
Asset Valuation Method	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	6.00%
Inflation	2.50%
Payroll Increases	3.00%
Investment Rate of Return	6.75%, Net of OPEB plan investment expenses, including inflation
Mortality	6.75%, Net of OPEB plan investment expenses, including inflation
Service Requirement	2014 CalPERS OPEB Assumptions Model for "public agency miscellaneous"

Other Notes

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

No change in benefit terms and discount rates.

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Contributions were not based on a measure of pay.

West Bay Sanitary District
Schedule of Net OPEB Liability
June 30, 2021

Total OPEB liability	2018	2019	2020	2021
Service cost	\$ 6,513	\$ 6,708	\$ 6,909	\$ 7,254
Interest	16,476	17,188	17,672	18,732
Differences between expected and actual experience	-	-	66,449	-
Changes of assumptions	-	-	(2,612)	-
Benefit payments	(7,909)	(14,335)	(17,333)	(7,850)
Net change in Total OPEB Liability	15,080	9,561	71,085	18,136
Total OPEB Liability - beginning	278,553	293,633	303,194	374,279
Total OPEB Liability - ending	<u>\$ 293,633</u>	<u>\$ 303,194</u>	<u>\$ 374,279</u>	<u>\$ 392,415</u>
Plan fiduciary net position				
Employer contributions	\$ 232,909	\$ 14,335	\$ 17,333	\$ 5,120
Net investment income	10,234	12,089	15,717	13,423
Benefit payments	(7,909)	(14,335)	(17,333)	(7,850)
Net change in plan fiduciary net position	235,234	12,089	15,717	10,693
Plan fiduciary net position - beginning	-	235,234	247,323	263,040
Plan fiduciary net position - ending	<u>\$ 235,234</u>	<u>\$ 247,323</u>	<u>\$ 263,040</u>	<u>\$ 273,733</u>
Net OPEB liability	\$ 58,399	\$ 55,871	\$ 111,239	\$ 118,682
Plan fiduciary net position as a percentage of the total OPEB liability	80.11%	81.57%	70.28%	69.76%
Covered employee payroll	\$ 2,799,216	\$ 2,795,654	\$ 2,806,611	\$ 3,697,419
Net OPEB Liability as a percentage of covered payroll	2.09%	2.00%	3.96%	3.21%
Total OPEB Liability as a percentage of covered payroll	10.49%	10.85%	13.34%	10.61%

Other Notes

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

No change in benefit terms and discount rates.

Actuarially determined contribution rates are calculated as of June 30, two years prior to Contributions were not based on a measure of pay.

SUPPLEMENTARY INFORMATION

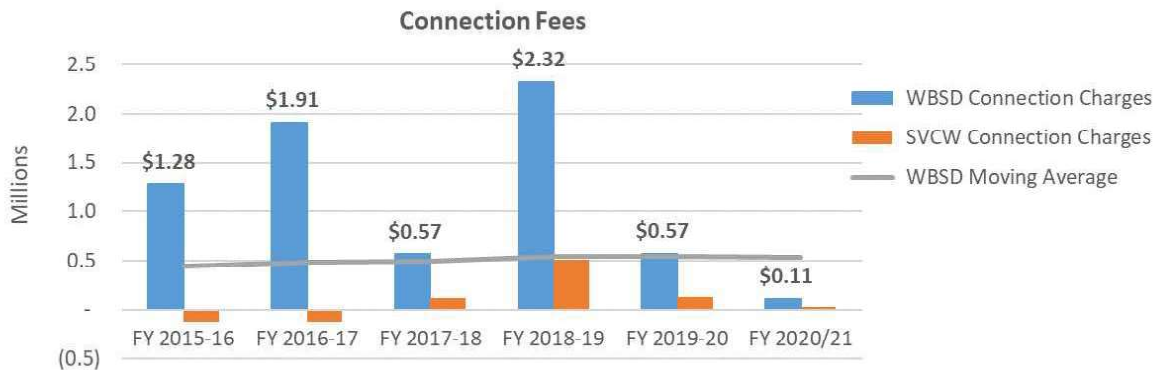
West Bay Sanitary District
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2021

	Budget Amounts	Actual (GAAP Basis)	Variance
Operating Revenues:			
Service charges	\$ 30,774,058	\$ 31,090,378	\$ 316,320
Flow equalization uses	365,184	355,000	(10,184)
Permit and inspection fees and other services	100,000	224,200	124,200
Other operating revenues	350,000	610,036	260,036
Total operating revenues	<u>31,589,242</u>	<u>32,279,614</u>	<u>690,372</u>
Operating Expenses:			
Sewage treatment plant (SVCW)	13,174,679	12,740,978	433,701
Sewage collection and general administration:			
Salaries and benefits	6,847,650	6,200,238	647,412
Materials and supplies	480,845	501,554	(20,709)
Insurance	173,290	219,914	(46,624)
Contract services	481,000	331,601	149,399
Professional services	495,220	292,933	202,287
Repairs and maintenance	297,900	297,135	765
Utilities	196,550	390,792	(194,242)
Other operating expenses	377,567	659,710	(282,143)
Total sewage collection and general administration	<u>9,350,022</u>	<u>8,893,877</u>	<u>456,145</u>
Depreciation	2,900,000	3,739,121	(839,121)
Total operating expenses	<u>25,424,701</u>	<u>25,373,976</u>	<u>50,725</u>
Operating Income (Loss)	<u>6,164,541</u>	<u>6,905,638</u>	<u>741,097</u>
Nonoperating Revenues (Expenses):			
Investment income	50,000	363,553	313,553
Interest expense	-	(125,580)	(125,580)
Increase (decrease) of equity in Silicon Valley Clean Water	-	297,792	297,792
SRF grant reimbursements	-	662,911	662,911
Other nonoperating expenses	(6,000)	-	6,000
Other nonoperating revenues	1,000	672,665	671,665
Total nonoperating revenues (expenses)	<u>45,000</u>	<u>1,871,341</u>	<u>1,826,341</u>
Income before contributions	6,209,541	8,776,979	2,567,438
Capital Contributions	<u>-</u>	<u>110,097</u>	<u>110,097</u>
Change in Net Position	6,209,541	8,887,076	2,677,535
Prior Period Adjustments	-	(755,728)	(755,728)
Beginning Net Position	135,869,805	135,869,805	-
Ending Net Position	<u>\$ 142,079,346</u>	<u>\$ 144,001,153</u>	<u>\$ 1,921,807</u>

West Bay Sanitary District
Annual Capacity Fee Report AB1600
 June 30, 2021

West Bay Sanitary District (District) charges connection fees to developers or home owners to connect to the District’s public wastewater service. The purpose of the sewer connection fee is to equalize the cost of acquisition, construction, and installation of the District’s facilities so that each resident or property owner pays their proportionate share of such costs.

The District has recognized an average of \$532 thousand in Connection Fees since Fiscal Year 1984-85. Prior to FY 2014-15, which recognized \$5.7 million in connections fees, these fees were fairly stable, averaging \$241 thousand in the prior thirty years. Connections fees averaged \$1.13 million over the past six year, fluctuating from year to year. The connection fees received show the growth of the District by year. The line on the chart below indicates the moving average of connection fees received since 1984. Connection fees of \$7.92 per GPD are also collected to fund treatment plant construction at Silicon Valley Clean Water (SVCW), which the District has a 23.38% share. The SVCW connection fees had a net average of \$87.6 thousand including funds received, less contributions to SVCW.



In 1987, the State Legislature passed Assembly Bill 1600 (AB1600) which added Section 66000, et seq., to the California Government Code, known collectively as the Mitigation Fee Act. Section 66013 provides guidance on fees imposed for sewer connections to a public sewer system or capacity charges that such fees shall not exceed the estimated reasonable cost of providing the service for which the fee is imposed. Capacity charges include a charge for public facilities in existence at the time imposed or for new public facilities to be acquired or constructed in the future that are of proportional benefit to the person or property being charged.

In compliance with AB1600, the District accounts for all connection fees in a Capital Fund, separate from the General Fund for sewer service operations. In fiscal year 2020-21, the District received \$110,097 in connection fees, for approximately 3,158 gallons per day (GPD) of additional capacity, with \$110 in applied interest income. The District expended \$1.88 million on all construction, with \$1.267 million specifically for wastewater infrastructure. Table 1 shows the revenues and expenditures applied to capacity increases. The District does not carry negative balances, therefore the beginning and ending balance of Connection Fees is zero. Additional connections to the District’s system and construction were low in FY 2020-21, due to COVID-19 shutdowns.

Table 1
Connection Fee and Capacity Charges

<u>Summary of Connection Fees</u>	<u>FY 2020-21</u>	<u>GPD</u>	<u>FY 2019-20</u>
Connection Fees	\$ 110,097	3,158	\$ 572,970
Allocated Interest	110		3,438
Total Connection Fee Revenue	\$ 110,207		\$ 576,407
Capacity Project Expenditures	(1,266,758)		(1,705,408)
Net Connection Fees (Deficit)	\$ (1,156,551)		\$ (1,129,000)
Beginning Balance Available	\$ -		\$ -
Ending Balance Available	\$ -		\$ -

West Bay Sanitary District
Annual Capacity Fee Report AB1600
June 30, 2021

Connection fees fund 100% of wastewater infrastructure projects, with any deficit funded by the Capital Fund. Table 2 details the wastewater infrastructure projects with actual expenditures recognized and the approved budget for FY 2020-21, with the approved budget for FY 2021-22 to show future planned infrastructure improvements to the system.

Table 2
Wastewater Infrastructure Projects

Projects	Actual FY 2020-21	Budget FY 2020-21	Budget FY 2021-22
Pump Stations	64,825	65,000	65,000
Other Subsurface Line Projects	-	130,000	130,000
Isabella, Gilbert, Bay North, Coyote Hill - Phase 1		350,000	
Belle Haven III & Alpine	39,647		
Isabella, Gilbert & Bay North - Phase 1		1,500,000	
Isabella, Gilbert & Bay North - Phase 2		2,500,000	2,500,000
Lower Ringwood/ North Bay	1,162,285	1,500,000	1,500,000
Stowe Lane			200,000
Construction In Process - Completed	(7,253,197)		
Belle Haven III	5,500,893		
Emergency Repairs to Alpine Rd	1,752,304		
Total Wastewater Infrastructure Projects	1,266,758	6,045,000	4,395,000

In addition to the \$1.88 million in construction, in FY 2020-21, the District completed two subsurface line projects for \$7.25 million, which was transferred from CIP. The District transferred \$1.244 million to Capital Reserves; Capital Project, Emergency Capital, and Vehicle & Equipment Reserves. The District paid \$5.85 million to SVCW or for SVCW bonds and other debt. Table 3 shows all expenditures and transfers for the Capital Fund and capital contributions for SVCW, excluding operating expenses.

Table 3
Construction Expenditures

Capital Fund - Construction	Actual FY 2020-21	Budget FY 2020-21	Budget FY 2021-22
Administration	3,547	35,000	35,000
Collection Facilities	24,510	450,000	600,000
Vehicles & Equipment	177,112	228,000	201,750
Pump Stations	64,825	65,000	65,000
Subsurface Lines	7,253,197	130,000	130,000
Construction Projects	(5,640,649)	8,520,000	11,720,000
Total Capital Fund Construction	1,882,542	9,428,000	12,751,750
Capital Reserve Transfers	1,244,000	1,244,000	2,871,315
SVCW - Capital & Debt Contributions	5,850,769	6,070,847	6,171,462
Total Construction, Transfers, & Contributic	8,977,311	16,742,847	21,794,527

The District has a ten year construction plan to facilitate timely maintenance and rehabilitation of the wastewater infrastructure and add capacity for current and future users. The District estimates average construction of \$6.5 million each year for a total of approximately 32.55 miles of pipeline projects over the ten year construction plan. District construction consistently exceeds connection fees with the balance funded from other Capital Fund sources.

**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
Menlo Park, California

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 of West Bay Sanitary District (the “District”) as of and for the year ended June 30, 2021, 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 10, 2021.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and



material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

C & A LLP

November 10, 2021
San Jose, California