WEST VALLEY SANITATION DISTRICT OF SANTA CLARA COUNTY

ANNUAL REPORT 2014-2015

WEST VALLEY
SANITATION DISTRICT

ANNUAL REPORT

OF

WEST VALLEY SANITATION DISTRICT
SANTA CLARA COUNTY, CALIFORNIA

FOR

FISCAL YEAR 2014-2015

100 EAST SUNNYOAKS AVENUE
CAMPBELL, CALIFORNIA 95008
(408) 378-2407
www.westvalleysan.org

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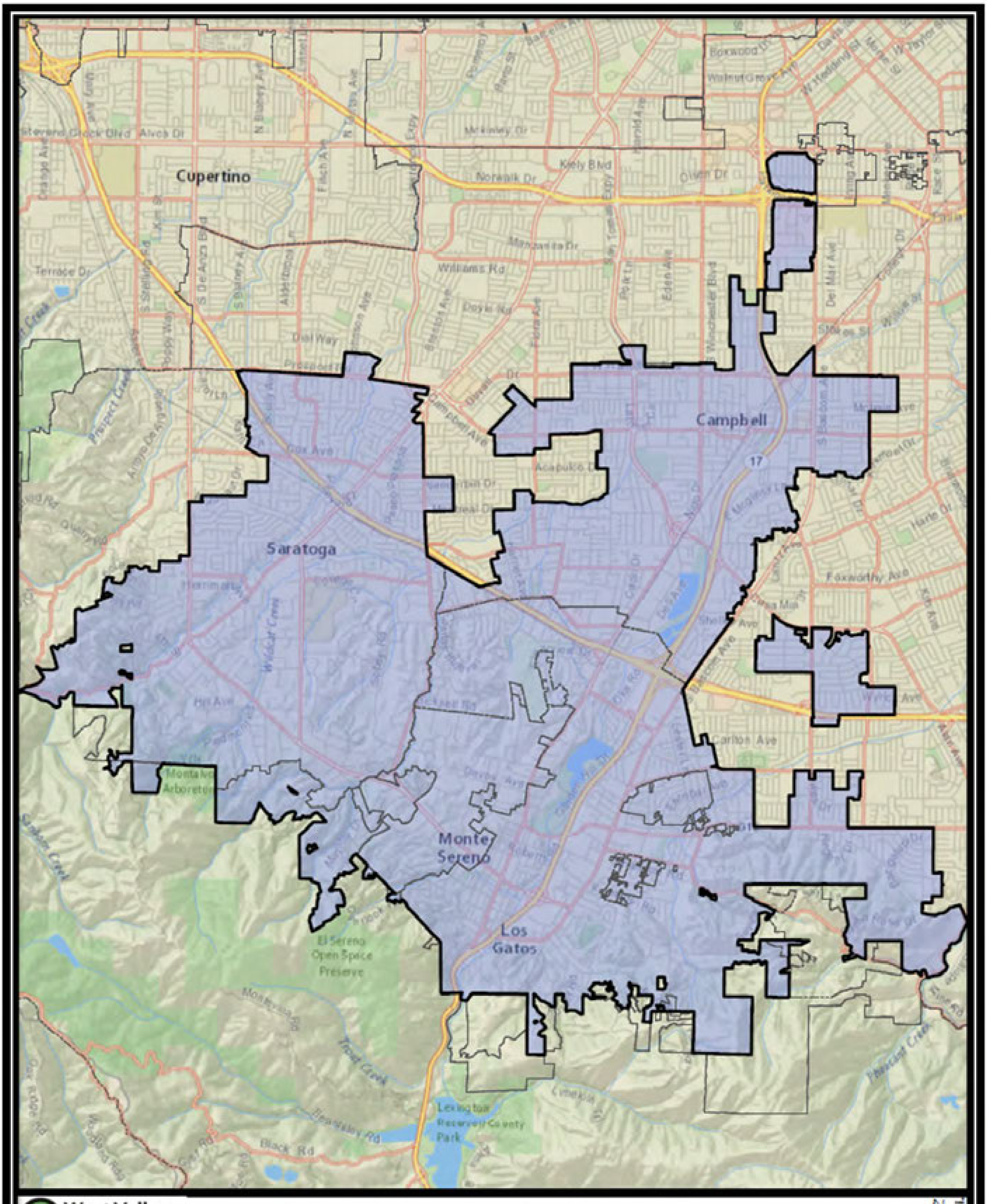

Cupertino
Saratoga
Campbell
Monte Sereno
Los Gatos
Montalvo Arboretum
El Sereno Open Space Preserve
Lexington Reservoir County Park
West Valley Sanitation District
Service Area
City Boundaries
1" = 1 MI

BOARD OF DIRECTORS
FISCAL YEAR 2014-2015

City of Campbell

Even Low	January 23, 2013 - December 1, 2014
Michael Kotowski	January 6, 2015-

Town of Los Gatos

Steve Leonardis	January 23, 2013 -

City of Monte Sereno

Marshall Anstandig	January 23, 2013 -

City of Saratoga

Chuck Page	February 14, 2007 - December 2, 2014
Manny Cappello	December 17, 2014 -

Santa Clara County

Ken Yeager	January 10, 2007 -

Board of Supervisor, District 4

ADMINISTRATIVE OFFICERS

Jon Newby 7/9/12	District Manager and Engineer
Steven R. Meyers 6/1/10	District Counsel
Sarah Quiter 2/12/14	Deputy District Counsel
Lesha Luu 10/12/11	District Secretary

EX OFFICIO OFFICERS

Emily Harrison	Santa Clara County Director of Finance
Lawrence E. Stone	Santa Clara County Assessor

MANAGER'S MESSAGE

Fiscal year 2014-15 was the 67th anniversary of West Valley Sanitation District. FY 2014-15 marks the second year of implementing the District's Five Year Strategic Plan with objectives and action items set forth for the fiscal year focused on continuous improvement with an emphasis on gaining efficiency, improving communication, staff development and training, fiscal and financial health, improving data and information management, and long range planning.

The success of the District can be directly linked to the commitment to the public and striving to improve access and communication. This year the District received recognition for the Transparency Certificate of Excellence issued by the Special District Leadership Foundation. The District demonstrated completion of eight essential governance transparency requirements such as properly conducting open public meetings, adopting policies for public records act request, filing financial transactions and compensation reports to the State Controller's Office and fulfilling fifteen website requirements to provide easy access to information on board agendas and meeting minutes, current District budget, and the most recent financial audit. These and other requirements served to demonstrate the commitment of the District to transparency, communication, and openness to the public for participation in the development of District policies. The District was awarded the certificate in February 2015.

The modernization and rehabilitation of the San Jose/Santa Clara Water Pollution Control Plant continues to be refined. The City of San Jose adopted a $2 billion Plant Master Plan that identifies improvements to be made to the treatment plant over the next thirty years with $1.5 billion planned in the first ten years. The District's share of the Plant Master Plan will exceed $130 million. To maintain the fiscal health of the District, a five-year rate plan was adopted in 2013. The rate plan identifies five rate increases starting with 10% in FY 2013-14, followed by 10% rate increase in FY 2014-15, 10% in FY 2015-16, 9.5% in FY 2016-17, and 9.0% in FY 2017-18. This year the second rate increase was adopted to ensure sufficient revenues to fund the District's portion of the improvements while funding the needs to maintain and operate the collection system. In addition to the rate increases, the District will need to secure debt financing to fund the large capital improvement projects that are expected in the next several years at the treatment plant.

This year the District continues to explore and modify the CCTV (closed circuit television) program to improve efficiencies in pursuit of a system wide collection system inspection every 8 years. Annual CCTV footage continues to improve using existing staffing by staging the cleaning process in front of the CCTV work. Further refinements are still necessary to achieve the 8-year cycle goal. The additional data from the CCTV will allow the District to further refine its work order system and optimize its cleaning cycles with the goal of focusing on pipelines that have the greatest need of cleaning.

The District must continue to modernize and update systems to maintain efficiency and effectiveness. The District completed a needs assessment for tracking and documenting permits to facilitate the preparing of the annual tax roll and ensuring compliance of discharges to the collection system. This has resulted in the development of an extensive work plan spanning the next five years to identify a flexible database platform and work efforts to migrate the physical permit records to an electronic database system. This new system will facilitate the analysis of the connected parcels and prepare the annual tax roll.

The following pages present details on the District's administration and operation during the fiscal year 2014-15 The independent auditor's report on the examination of the District's financial statements and accounting procedures reveals a financially strong and competently administered District.

Jon Newby
District Manager and Engineer

WEST VALLEY SANITATION DISTRICT SERVICE AREA

The District was formed in 1948 as County Sanitation District No. 4 of Santa Clara County under the provisions of the California County Sanitation District Act. In 1988, the District changed its name to West Valley Sanitation District of Santa Clara County, to reflect its geographical service area. Fiscal year 2013-2014 was the District's 66th year of operation.

Beginning with a population of 20,000 in 1948, the District now serves a population of approximately 109,000. The District's 1948 service area encompassed 35.9 square miles. As unincorporated areas were absorbed into the City of San Jose, the District's service area gradually decreased to its current level of 28.3 square miles.

At the District's inception in 1948, its wastewater collection system consisted of twelve miles of sewer lines. As of June 30, 2015, the collection system maintained and operated by the District consists of approximately 415 miles of main and trunk sewers and 210 miles of sewer laterals, for a total of 625 miles of sewer lines. As of November 1, 2005, the District assumed ownership and maintenance responsibilities for the sewer system located within the Town of Los Gatos, including 3 pump stations.

West Valley Sanitation District provides wastewater collection and disposal services for the cities of Campbell, Monte Sereno, Los Gatos, two-thirds of Saratoga, and the intervening unincorporated areas of the county. The population and distribution of sewer service is shown in the table below.

CONNECTION AND POPULATION DISTRIBUTION

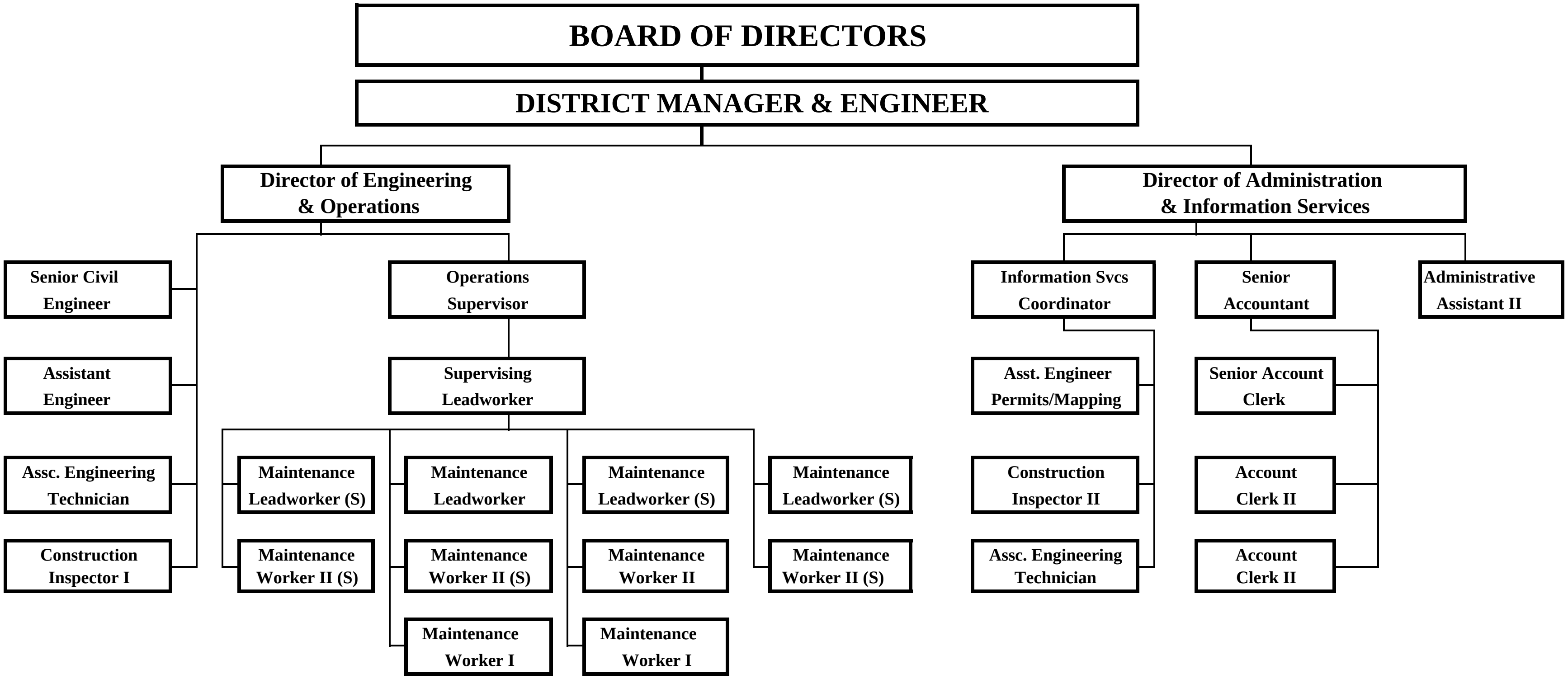
	SINGLE-FAMILY DWELLING UNITS	MULTI-FAMILY DWELLING UNITS	INDUSTRIAL/ COMMERCIAL COMPLEXES	TOTAL CONNECTIONS	TOTAL POPULATION SERVED*
CAMPBELL	10,289	7,375	1,357	19,021	41,857
LOS GATOS	8,977	3,537	1,022	13,536	30,505
MONTE SERENO	1,186	65	7	1,258	3,451
SARATOGA	8,162	550	251	8,963	24,655
SANTA CLARA CO.	2,906	237	98	3,241	9,335
TOTAL	31,520	11,764	2,735	46,019	109,803

In fiscal year 2014-2015, 633 sewer connection permits were issued for existing residences, 50 sewer connection permits for proposed residences, 28 permits for residential septic tank abandonment, 63 for existing commercial premises, and 6 permits for new commercial premises.

*Note: Population data for Campbell, Los Gatos, and Monte Sereno are derived from the California Department of Finance. Population data for Saratoga and Santa Clara County are based on the number of connections and assumed household occupancy.

WEST VALLEY SANITATION DISTRICT

FY 2014-2015 ORGANIZATION CHART



Staffing

3	Executive Management
12	Operations
4	Engineering
9	Administration
28	Total Positions

(S) - Specialized

6/30/2015

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ORGANIZATIONAL STRUCTURE

West Valley Sanitation District is governed by a five-member Board of Directors, and staffed by 28 employees. The District Manager and Engineer is responsible for the overall management of the District and implementation of board policies. The District staff is organized into two divisions: Administration and Information Services Division, and Engineering and Operations Division. The District is well staffed with outstanding and motivated employees, who are dedicated to provide prompt and cost-effective service to the community. Operation division staffs are available 24 hours a day, 7 days a week, to respond to sewer overflows, and the District's front counter personnel are always available during business hours to provide sewer connection information and to answer questions about service availability. Sewer maintenance productivity continues to exceed industry standards, and productivity in other areas, such as connection permits and inspections, have increased by measurable amounts. The District's performance incentive program continues to be successful in promoting employee achievement, goal-setting, and creative problem-solving.

Jon Newby, District Manager and Engineer

ADMINISTRATION AND INFORMATION SERVICES

The Administration and Information Services Division is responsible for the financial and administrative aspects of the District. Services provided by the Division include:

- Budget preparation and tracking
- Payroll, accounts payable and receivable
- Clerk of the Board of Directors
- Issuance of sewer connection permits
- Fiscal agent of the West Valley Clean Water Program
- Accounting and financial reporting
- Collection of sewer service charges
- Personnel and human resources
- Information systems management

In fiscal year 2014-2015, the Administration and Information Services Division worked diligently to ensure the fiscal health of the District and improved public access to District information. The Division conducted an update of the District's financial assumptions including projected revenues, staffing, operation and maintenance, and capital costs. The District finances are challenged by the San Jose/Santa Clara Water Pollution Control (WPCP) operating and maintenance (O&M), and large capital improvement program costs. While the District's staffing and O&M costs are stable with projected annual increases of 3.5%, WPCP O&M costs have been averaging over double the District's increases. WPCP capital costs include implementation of a $2 Billion capital program and necessitate debt financing to provide rate stabilization. Rate increases that average 10% per year starting in 2013 and expected for the next 5 years are needed to meet the funding levels required by the WPCP. The Division continues to monitor and update projection based on the most current information available from WPCP and make adjustments to the District finances to meet all of its obligations.

Critical to the District's values to "Operate with Transparency" and "Commitment to public good", the need to lead by taking action has been demonstrated in the receipt of the District Transparency Certificate of Excellence issued by the Special District Leadership Foundation (SDLF). This award recognizes the District's outstanding efforts to promote transparency and good governance through completion of eight essential governance transparency requirements and fulfill fifteen website requirements such as providing board agendas, minutes, and financial information to the public.

To maintain prudent fiscal management and ensure the highest integrity of the District's finances, Divisional staff engaged in the solicitation and selection of an independent auditing service for fiscal years 2015 to 2017. The independent auditing firm is responsible for reviewing the District financial records and provides the annual audit report regarding the condition of the District's finances, accounting systems and procedures.

Back Row: Gil Acosta, Scott Boehm, Patrick Salandro
Front row: Lesha Luu, Phuong Vu, Joe Presnell, Diane Spiteri, Amy Yav, Lil Iida, Wendy Newby

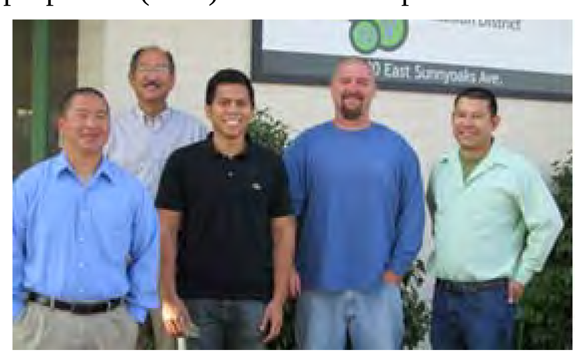
ENGINEERING AND OPERATIONS

The Engineering and Operations Division is responsible for the overall management of the sanitary sewer system, including maintenance and repair, engineering design, construction management and inspection, closed-circuit television inspection and analysis, and long-range planning for sewer rehabilitation projects, as well as fleet management and building and grounds maintenance. The Division provides continuous on-call service response to sanitary sewer main and service lateral stoppages and overflows throughout the year. In addition, under agreements with the cities within the District service area, District crews perform a pre-winter inspection and cleaning of the cities' storm sewer systems.

The District's Sewer System Management Plan (SSMP) is a comprehensive document that describes the activities used by the District to effectively operate, maintain, and manage its wastewater collection system. In compliance with State Water Resources Control Board requirements, the District performed its bi-annual audit of its SSMP in May 2014. The SSMP was subsequently revised by incorporating the audit recommendations, in addition to other necessary updates, and then adopted by the District Board in April 2015. The current version of the SSMP is available for public review on the District's website at www.westvalleysan.org.

In fiscal year 2014-2015 the District witnessed a significant increase in private development projects and commercial improvements reflecting the positive economic trend in the region. There were 15 large private development projects which added approximately 2,300 lineal feet of new sewer mains and other public sewer improvements requiring engineering review and inspection. Additionally, there were nearly 100 commercial/tenant improvements that required engineering review. Approximately $1.7 million was expended on the design and construction of Capital Improvement Program (CIP) projects or ongoing engineering studies. Significant projects include completion of the Blossom Hill Sewer Replacement project, point repairs at 35 locations Districtwide, repair or replacement of 38 customer sewer connections to accommodate the City of Campbell's Hacienda Avenue Green Street project and design of the Los Gatos Creek - Vasona Park Sewer Rehabilitation and Quito Basin 7 Areas 3 and 4 projects. Ongoing studies include Trunk Sewer Assessment, Risk Prioritization Modeling, and Hydraulic Modeling.

In fiscal year 2014-2015 over 1.8 million lineal feet of sewer mains and nearly 1,600 sewer laterals were cleaned, respectively. In this same period, more than 230,000 lineal feet of sewer line was inspected and evaluated through closed circuit television (CCTV). Through televising efforts a condition assessment is made of our collection system which serves as a critical component in the District's Risk Prioritization Model to help determine the priority of projects in the District's CIP. As part of the District's proactive lateral maintenance program which began in 2009, there has been an increased focus on lateral locating (GPS), mapping, and cleaning. Neighborhoods with historically recurring backup and overflow events were identified and prioritized for this effort. Once located and mapped, these laterals were cleaned and then put on a regular cleaning cycle. To date approximately 22,000 properties (70%) have been inspected and more than 6,500 cleanouts have been found and surveyed.



Left to Right: Alan Kam, Ed Oyama, Teejay Deleon, Jason Cumbo, Jorge Picado

WVSD OPERATIONS ACTIVITIES

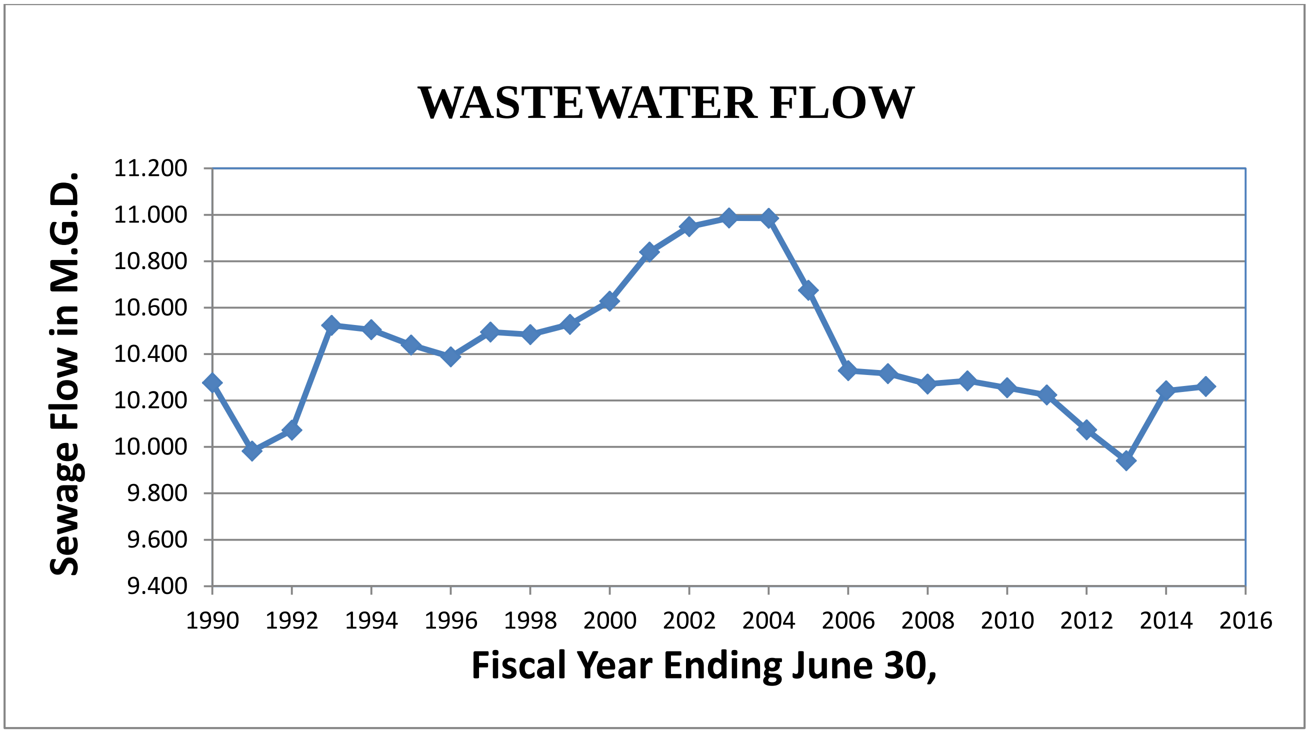
Fiscal Year Ending June 30, 2015

ACTIVITY		QUANTITY
SERVICE CALLS:		
Service Calls Received		964 ea
Avg. Response (Public Calls)		32 min
MAIN LINE SEWERS:		
Stoppages		60 ea
Overflows:	**Category 1**	4 ea
	Category 2	0 ea
	Category 3	14 ea
Cleaning		1,833,000 feet
CCTV Inspections		232,000 feet
LATERAL SEWER LINES:		
Stoppages		508 ea
Overflows:	**Category 1**	0 ea
	Category 2	0 ea
	Category 3	2 ea
	Private Lateral	2 ea
Cleaning		1,550 ea
CCTV Inspections		17,100 feet
Cleanout Locating (GPS)		540 ea

Front Row: Burt Cordera, Rob Panelli, Kelvin Hatchett, Mark Garrett
Back Row: Michael Minchaca, Vandy VanDerPaardt, Doug Gillette, Paul Luis, Mark Bristow
Not Pictured: Chad Pozas, Jason LaRosa

WASTEWATER TREATMENT AND DISPOSAL

West Valley Sanitation District contracts with the San Jose/Santa Clara Water Pollution Control Plant for wastewater treatment and disposal. In fiscal year 2013-2014, the District collected and conveyed 10.260 million gallons per day of wastewater to the treatment plant. The plant, located near Zanker Road in north San Jose, collects and treats wastewater from local municipalities and sanitation districts and discharges the treated wastewater into the San Francisco Bay. West Valley Sanitation District accounts for approximately 10% of the treatment flow at the plant.



Note: The flow reduction in fiscal year 2004-2005 was the result of reducing the assumed residential flow from 219 gallons per day per household to 184 gallons per day per household based on a capacity study completed in February 2005.

SEWER EXTENSION AND REPLACEMENT FINANCING PROGRAMS

West Valley Sanitation District has four sewer extension financing programs, providing funds for extension of the District's sanitary system to new development, lateral replacement, as well as for the abandonment of septic systems. The financing programs are Assessment Districts, Private Lateral Replacement Program, District Participation, and the Septic System Abandonment Program. The following pages present details of these programs.

ASSESSMENT DISTRICTS

Under assessment districts, sewers are financed by public improvement bonds, with costs assessed to property owners and collected over 15 years on the county tax roll. Due to the expense of forming assessment districts and issuing bonds, as well as the need for majority property owner approval, the district has not formed an assessment district in several years.

PRIVATE LATERAL REPLACEMENT PROGRAM

The Private Lateral Replacement Program was created to assist homeowners replace their failing, or failed sewer line serving their home. The Private Lateral Program provides homeowners with an interest-free five year term loan, up to a maximum amount of $3,500.

DISTRICT PARTICIPATION PROGRAM

Under the District Participation Program, also known as the Sewer Extension Revolving Fund, or SERF program, the District participates with the installer in the costs of extending the sewer, and recovers costs by collection of connection fees from benefiting property owners. Unlike the Septic System Abandonment Program, district participation can be used to extend sewers to new development. The table on the next page shows the status of the District Participation Program.

DISTRICT PARTICIPATION PROGRAM – SEWER EXTENSION REVOLVING FUND

Fiscal Year Ending 6/30	Applications Submitted	Applications Accepted	Sewers Installed Footage	Participation Amount
1958	1	1	1,288	5,120
1959	2	2	97	3,453
1960	6	4	4,506	35,000
1961	4	2	3,893	35,000
1962	3	1	3,670	26,250
1963	5	4	10,101	48,011
1964	3	3	6,550	57,623
1965	0	0	0	0
1966	2	2	1,012	1,484
1967	3	2	833	11,277
1968	0	0	0	0
1969	4	4	2,994	32,381
1970	1	1	(Included Above)	10,678
1971	5	3	3,213	35,068
1972	6	3	2,219	22,194
1973	8	8	2,200	22,746
1974	8	7	3,725	25,693
1975	6	6	1,376	13,258
1976	4	4	1,805	32,026
1977	10	5	1,446	18,775
1978	20	13	1,693	22,265
1979	12	12	2,863	70,535
1980	13	10	1,966	57,222
1981	2	2	0	0
1982	3	3	419	12,010
1983	7	5	571	12,985
1984	6	6	332	10,105
1985	5	3	735	33,639
1986	6	5	1,154	51,788
1987	5	5	851	51,000
1988	3	3	4,320	75,000
1989	1	1	777	65,000
1990	0	0	0	0
1991	2	2	170	8,417
1992	3	3	2,224	131,758
1993	2	2	610	27,616
1994	1	1	290	5,077
1995	4	4	1,337	47,496
1996	10	10	2,557	84,000
1997	9	6	1,153	71,504
1998	1	1	366	24,500
1999	0	0	0	0
2000	0	0	0	0
2001	1	1	562	64,486
2002	0	0	0	0
2003	1	1	217	10,535
2004	0	0	0	0
2005	1	1	0	44,250
2006	0	0	468	(Included Above)
2007-2015	0	0	0	0
TOTALS	199	162	76,563	$1,417,225

SEPTIC SYSTEM ABANDONMENT PROGRAM

The Septic System Abandonment Program (SSAP) was initiated by the District in March, 1986, and continued through the 2014-2015 fiscal year. The purpose of the program is to encourage property owners in the urbanized areas of the District to abandon their septic systems and connect to the public sewers.

Under the Septic System Abandonment Program, the District designs and constructs the main and lateral sewers in neighborhoods where the residents have expressed interest in obtaining public sewer service. The District recovers the costs from the property owners when they choose to connect to the system. Unlike an assessment district, the program is entirely voluntary. Property owners are not required to participate in the costs until they decide to connect to the sewer. To encourage participation, the District offers a ten-year financing agreement at a low interest rate and collects the payments on the county tax roll. Property owners are also given the option of paying cash for their pro rata share of the sewer construction. In some instances, the District installs the laterals to serve neighborhoods where a main sewer is already available. These situations are referred to as Phase II of the SSAP program.

The costs assigned to property owners who choose not to participate are tracked in the District's unconnected property inventory and updated when a sewer connection permit is issued.

As of June 30**,** 2015, the District completed 44 projects providing sewer service to 1150 properties. On the next page is a table summarizing the activity in each project area. The column referring to project cost includes construction and engineering cost as well as district labor and overhead. There are also columns setting forth the cash payments received to date in each project as well as the amounts being collected on the ten-year financing agreements. (Phase II of the SSAP program is not included in the summary.)

SEPTIC SYSTEM ABANDONMENT PROGRAM SUMMARY
June 30, 2015

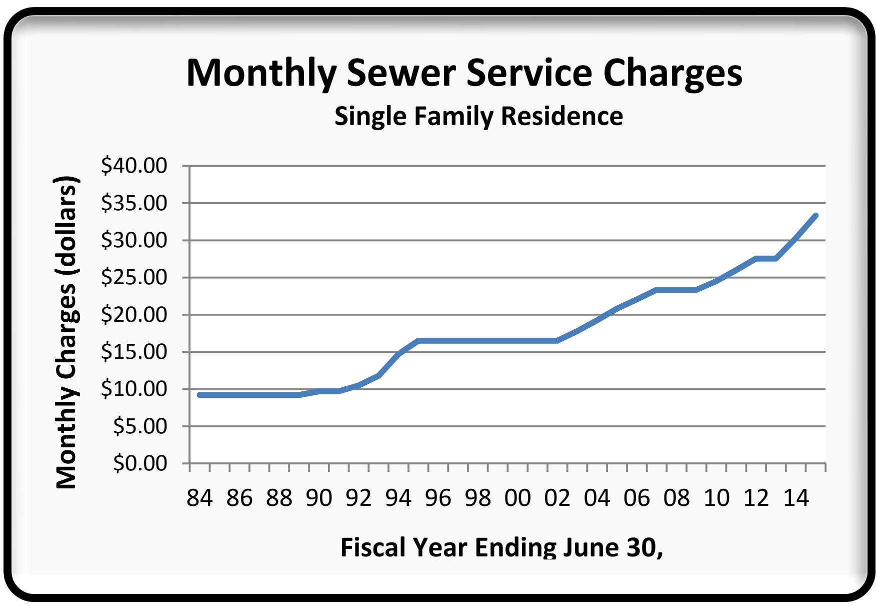
PROJECT TITLE	PARCELS SERVED	PROJECT COST (APPROX.)	PERMITS ISSUED	COST RECOVERED CASH	COST RECOVERED FINANCING AGREEMENTS
Emory	73	209,775	53	49,859	168,832
Wendell	6	29,153	6	21,554	12,000
Olympia	18	58,460	14	23,783	46,783
Pepper/Park	57	484,886	44	205,341	251,088
Mellowood	34	124,561	32	57,936	135,867
Saratoga Glen	47	221,678	35	23,758	218,415
Mc Bain	24	107,467	22	29,582	66,046
Bucknam	9	34,090	8	16,162	18,780
Wekiva	8	31,728	8	2,900	39,813
Cambrian Park	355	1,125,649	277	339,541	1,061,265
Clydelle	12	44,238	8	3,650	43,800
Saratoga	14	84,960	8	11,460	62,089
Greenwood	10	124,093	10	76,105	104,615
Chirco	12	94,127	6	10,533	38,648
Leroy	17	68,697	11	31,569	61,006
Bellecourt	24	358,563	14	99,264	193,523
Walnut	51	332,546	41	119,264	222,400
Hedegard	12	79,326	6	26,473	54,680
Lovell	29	136,445	21	25,016	97,799
Pleasant	4	40,718	3	-	32,357
Vasona	8	43,186	4	12,918	4,975
Rosemary	17	64,483	10	31,460	23,602
Camellia Terrace	21	109,264	11	38,578	61,017
Lucot	18	74,314	18	45,898	47,374
Walbrook	25	197,512	24	44,985	138,868
Paseo Lado	26	131,602	24	51,383	103,256
Cristich/Veitenheimer	14	110,134	3	32,274	-
Eucalyptus/Toyon	6	119,623	3	64,915	21,689
Willd Way	6	47,178	1	-	8,140
S. San Tomas Aquino	8	49,565	3	766	13,309
Redberry	6	62,895	6	37,581	31,270
Bainter	14	162,025	6	49,563	30,120
Mitchell	9	77,095	7	24,646	28,287
Kennedy Road	15	173,487	11	39,392	82,709
Sunnyside/El Camino	10	149,239	9	82,169	64,673
Glen Una Drive	10	74,077	4	17,966	48,011
Donna Ln/Nutwood Ln	14	110,466	11	99,397	17,298
GlenUna Dr/Red Hill Dr	23	309,826	19	128,163	116,592
Farwell Ave	6	116,398	9	64,261	74,792
Matilija Drive/Ojai Drive	12	177,790	10	106,063	43,489
Bella Vista Avenue	17	160,337	8	58,351	22,218
Redding Road	5	54,222	4	-	44,896
Overlook Road	24	768,193	8	61,553	183,249
Hoffman Lane	20	220,679	5	23,041	31,490
TOTAL	**1,150**	**7,354,750**	**845**	**2,289,073**	**4,171,130**

SERVICE CHARGES AND FEES

The cost of wastewater collection, conveyance, treatment and disposal is financed by an array of charges and fees. In May 2013, the Board of Directors enacted an ordinance establishing the sewer service rates for fiscal years 2013-2014 through 2017-2018. Effective July 1, 2014, the residential sewer service charges are $400.08 per year for a single-family residence, and $279.24 per year for multiple dwelling units. Sewer service charges for non-residential connections are based on flow and treatment parameters.

In fiscal year 2014-2015, the District's Board of Directors adopted a resolution continuing the collection of the "Hillside Sewer Maintenance Zone Fee," a $50.00 surcharge imposed on the sewer service bills of properties in the district's hillside areas. This fee is set aside in a reserve account and used to fund repairs of sewers, which have been damaged by land movement.

Fiscal year 2014-2015 was the 21st year of the storm drain program fee. The program was established by the Board of Directors in order to assist the Cities of Campbell, Los Gatos, and Monte Sereno in their efforts to comply with the requirements of the Clean Water Act. The fees are established according to the recommendations of the cities in the program, and are collected on the District's tax roll along with sewer service charges. The funds are distributed to the municipalities upon collection of the fees.



CHARGES AND FEES
As of July 1, 2014

ITEM	**AMOUNT**
Sewer Service Charge:	
Residential, Single-family, per month	$ 33.34
Residential, Duplex, other Multi-family per unit per month	23.27
Commercial, per 100 cubic feet of water used	2.99 to 6.58
Industrial, per 100 cubic feet of water used	2.69 to 10.21
Schools and colleges, per 100 cubic feet of water used	3.98
Hospitals, per 100 cubic feet of water used	3.17
Sewer Connection Fees:	
Residential Connection:	
For construction without engineer's report, per parcel:	8,552.70
For construction with engineer's report, per parcel: Actual costs	
Non-Residential Connection: Based on flow and discharge characteristics.	
Treatment Plant Capacity Fee:	
Residential capacity fee:	
Single-family residential:	1,288.00
Multi-family residential:	1,120.00
Non-residential capacity fee: Based on flow and discharge characteristics.	
Sewer Connection Permit Fee:	
Connection requiring CCTV Inspection:	510.00
Connection not requiring CCTV Inspection:	335.00
Hillside Sewer Maintenance Zone Fee:	
Annual surcharge on properties within hillside zone:	50.00

Engineering Services:

Plan Check Fee: $500.00 or 2% of project cost, whichever is greater
Inspection Fee: 3% of project cost

Storm Drain Management Fee:

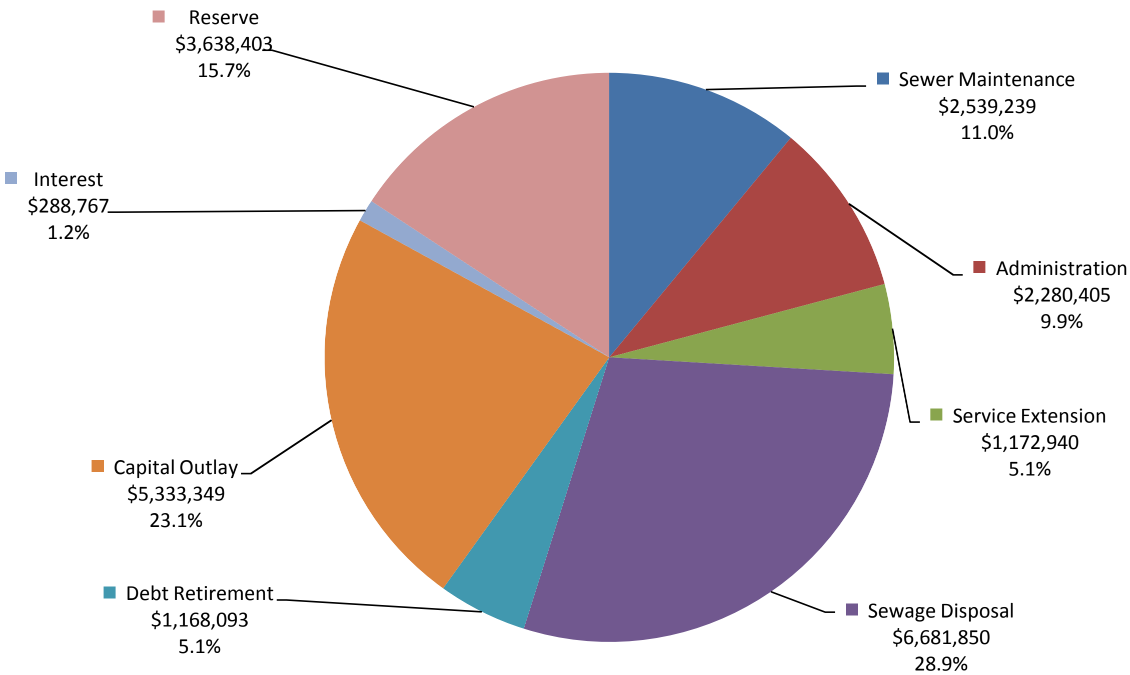
Residential properties within the cities of:

Campbell	$19.48 per year
Los Gatos	20.37 per year
Monte Sereno	16.58 per year

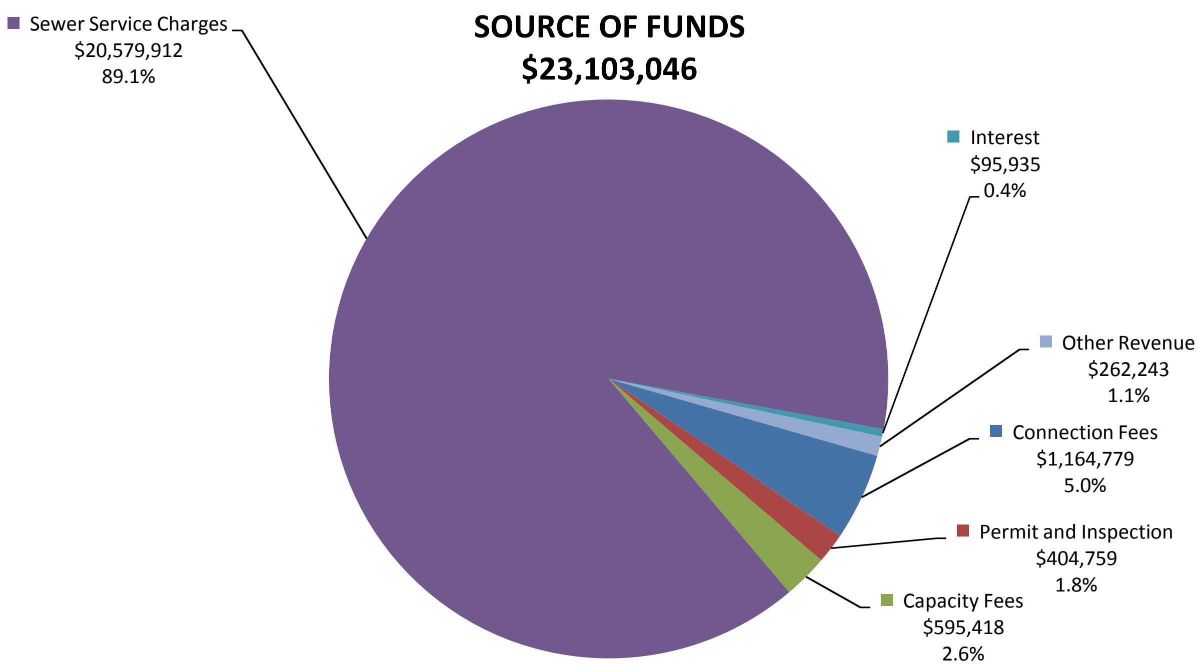
Commercial parcels: Fees vary according to lot size

FISCAL YEAR 2014-2015

USE OF FUNDS
$23,103,046



SOURCE OF FUNDS
$23,103,046



APPENDIX

INDEPENDENT AUDITOR’S REPORT
AND FINANCIAL STATEMENTS

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WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY

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

* * *

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

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West Valley Sanitation District
of Santa Clara County

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June 30, 2015

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Chavan & Associates, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Valley Sanitation District
Campbell, California

Report on the Financial Statements

We have audited the accompanying financial statements of the West Valley Sanitation District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the West Valley Sanitation District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

Other Matters

Comparative Information

The financial statements of the District the year ended June 30, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on October 28, 2014.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of contributions for pension plans, schedule of proportionate share of net pension liability, and schedule of funding progress for the retiree health benefit plan, as listed in the table of contents, 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.

New Accounting Principles

As discussed in Notes 1 and 9 to the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* effective June 30, 2015 and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C & A LLP

November 4, 2015
San Jose, California

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MANAGEMENT'S DISCUSSION AND ANALYSIS

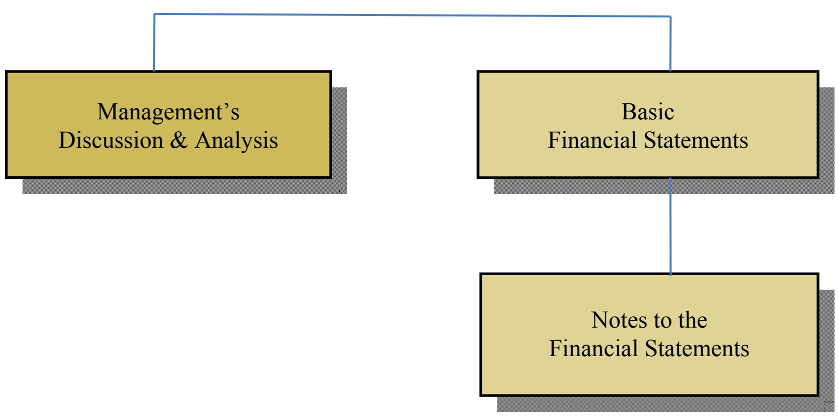
INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing. The annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position provide information about the activities of the District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The basic financial statements also include notes explaining pertinent information in the financial statements and provide more detailed data.

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2015 were as follows:

- The Statement of Net Position indicates that total assets and deferred outflows of resources exceeded total liability and deferred inflows of resources by $100,419,923. Unrestricted net position represents $27,021,328 and the remaining $73,398,595 is net investment in capital assets and capacity rights.
- Total net position increased $2,133,216 (2.17%) in fiscal year 2015 compared to an increase of $4,117,762 (4.37%) in fiscal year 2014.
- Total assets increased 4.83% from $109,224,807 in fiscal year 2014 to $114,496,453 in fiscal year 2015.
- Total liabilities increased 22.63% from $10,938,100 in fiscal year 2014 to $13,413,521 in fiscal year 2015.
- The District recorded deferred outflows of resources of $502,625 and deferred inflows of resources of $1,165,634 in order to record the different components required by GASB 68 for pension accounting and reporting. Deferred outflows of resources are technically not assets but increase net position similar to an asset and deferred inflows of resources are technically not liabilities but decrease net position similar to liabilities. See Note 1 under *Measurement Focus and Basis of Accounting* in the notes to financial statements for a definition of deferred inflows and outflows of resources.
- Total operating revenue increased by $2,195,028 (11.22%) mainly due to an increase of $2,086,845 in sewer service charges from prior year. The District increased sewer service rates by 10% in fiscal year 2015.
- Total operating expenses increased $58,135 (.35%) from prior year. The increase is comprised of $269,847 increase in total operating expense offset by $211,712 adjustment to comply with GASB 68.

BASIC FINANCIAL STATEMENTS

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

The Statement of Net Position includes all of the District's assets, deferred inflows, deferred outflows, liabilities and net position. Net position serves over time as useful indicator of the District's financial position.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. These statements reflect the result of the District's operations over the past year.

The final financial statement required is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 provides a summary of the District's net position as of June 30, 2015 as compared to June 30, 2014, and Table 2 provides the changes in net position for fiscal year 2015 as compared to 2014. Net position is an indicator of the District's financial health.

Table 1 - Summary Statement of Net Position

	2015	2014	Dollar Change	Percentage Change
Assets				
Current Assets	$ 31,464,637	$ 27,719,757	$ 3,744,880	13.51%
Noncurrent Assets	83,031,816	81,505,050	1,526,766	1.87%
Total Assets	$ 114,496,453	$ 109,224,807	$ 5,271,646	4.83%
Deferred Outflows	$ 502,625	$ -	$ 502,625	100.00%
Liabilities				
Current Liabilities	$ 2,019,883	$ 1,873,484	$ 146,399	7.81%
Noncurrent Liabilities	11,393,638	9,064,616	2,329,022	25.69%
Total Liabilities	$ 13,413,521	$ 10,938,100	$ 2,475,421	22.63%
Deferred Inflows	$ 1,165,634	$ -	$ 1,165,634	100.00%
Net Position				
Net Investment in Capital Assets	$ 73,398,595	$ 70,688,204	$ 2,710,391	3.83%
Unrestricted	27,021,328	27,598,503	(577,175)	-2.09%
Total Net Position	$ 100,419,923	$ 98,286,707	$ 2,133,216	2.17%

As illustrated above, the District's total net position increased by $2,133,216 from fiscal year 2014 to 2015. The increase can mostly be attributed to the increase in cash and investments resulting primarily from increased sewer service revenue.

Total assets increased by $5,271,646 (4.83%) mostly due to an increase in cash and investment of $3,747,921 and capacity rights of $1,582,193. Noncurrent assets account for 72.52% of total assets. Included in noncurrent assets are the District's capacity rights in the treatment plant and capital assets (e.g. subsurface lines, buildings, land, machinery and equipment).

Total liabilities increased by $2,475,421 (22.63%) as a result of the implementation of GASB 68. The District's proportionate share of the CalPERS miscellaneous pension plans' net pension liability at June 30, 2015 was $3,468,671. Offsetting the increase caused by GASB 68 were debt service payments made in fiscal year totaling $1,168,093.

Table 2 - Change in Net Position				
	2015	2014	Dollar Change	Percent Change
Revenues				
Operating Revenue	$ 21,758,880	$ 19,563,852	$ 2,195,028	11.22%
Operating Expenses				
Sewer maintenance	2,515,183	2,978,147	(462,964)	-15.55%
Service extension	1,117,665	1,263,934	(146,269)	-11.57%
Sewage disposal	6,681,850	6,177,658	504,192	8.16%
General and administrative	2,267,425	2,315,991	(48,566)	-2.10%
Depreciation and amortization	4,215,263	4,003,521	211,742	5.29%
Total Operating Expenses	16,797,386	16,739,251	58,135	0.35%
Operating Income (Loss)	4,961,494	2,824,601	2,136,893	75.65%
Nonoperating Revenue (Expense)	1,108,245	1,120,510	(12,265)	-1.09%
Capital Contributions	360,700	172,651	188,049	108.92%
Change in Net Position Before Adjustments	6,430,439	4,117,762	2,312,677	56.16%
Prior Period Adjustments	(4,297,223)	-	(4,297,223)	-100.00%
Change in Net Position	$ 2,133,216	$ 4,117,762	$ (1,984,546)	-48.19%

While the Statement of Net Position shows the change in financial position, the Statement of Activities and Changes in Net Position (Table 2 above) provides answers as to the nature and sources of the changes. The increase in net position resulted mainly from $4,961,494 surplus of operating revenues over operating expenses (operating income) and $1,220,773 of connection fees recognized as part of non-operating revenue during the fiscal year. The Change in Net Position was reduced by $4,297,223 prior period adjustment. Sewer service charges account for 94.57% of total operating revenue, and payments to the City of San Jose for operating and maintenance of the San Jose/Santa Clara Regional Wastewater Facility (RWF) account for 39.78% of the District's total operating expense.

CAPITAL ASSETS

Table 3 shows June 30, 2015 capital asset balances as compared to June 30, 2014. Total property, plant and Equipment, net of depreciation, account for 49.14% of total assets as of June 30, 2015.

Table 3 - Summary of Property, Plant and Equipment Net of Depreciation				
Description	2015	2014	Dollar Change	Percentage Change
Land and Easements	$ 276,535	$ 276,535	$ -	0.00%
Construction in Progress	4,706,767	4,861,148	(154,381)	-3.18%
Subsurface Lines	49,181,693	48,920,029	261,664	0.53%
Building	1,123,215	1,168,019	(44,804)	-3.84%
Intangible	76,501	17,520	58,981	336.65%
Land Improvements	229,255	245,559	(16,304)	-6.64%
Furniture and Fixtures	6,234	8,908	(2,674)	-30.02%
Vehicle and Equipment	659,972	802,349	(142,377)	-17.75%
Total PPE - Net	$ 56,260,172	$ 56,300,067	$ (39,895)	-0.07%

LONG TERM OBLIGATIONS

Table 4 summarizes the changes in long-term obligations over the past two years. Lease revenue bonds and state revolving fund loan account for $7,650,546 (57.03%) of total liabilities.

Table 4 - Summary of Long-term Obligations

	2015	2014	Dollar Change	Percentage Change
Revenue Bonds	$ 6,417,394	$ 7,237,183	$ (819,789)	-11.33%
State Revolving Fund Loan	1,233,152	1,581,456	(348,304)	-22.02%
Net Pension Liability	3,468,671	-	3,468,671	100.00%
Compensated Absences	488,191	417,925	70,266	16.81%
Total Long-term Obligations	$ 11,607,408	$ 9,236,564	$ 2,370,844	25.67%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's extensive financial planning and sewer rate setting over the past few years that have allowed the District to build up the financial capacity to undertake needed infrastructure rehabilitation, and meet obligations to RWF, where wastewater is conveyed and treated. Although there was an increase in the District's cash and investment as a result of rate increases in fiscal year 2015, the District still face challenges to meet obligations totaling approximately $81.5 million over the next ten years to RWF's $1.5 billion plant improvement. In efforts to meet those future obligations and maintain reserves pursuant to the District's reserve policy, the District expect rate increases averaging 10% per year in the fiscal year 2016 through 2018. As the plan for modernization and rehabilitation of RWF continues to be refined the District has strategized cost-effective funding models for the District to meet future expenses, including a combination of commercial paper and bonds.

On September 11, 2013, the District's Board of Directors approved a five-year strategic plan establishing the District's mission, vision and values. Specific goals and objectives were integrated in the strategic plan to encourage innovation and continuous improvement to provide cost effective and high quality service. District employees continue to achieve the goals and objective set forth in the strategic plan.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide readers with a general overview of the District's finances, and demonstrate the District's accountability for the money it receives. Questions about this report or request for additional information should be addressed in writing to Jon P. Newby, District Manager & Engineer, at West Valley Sanitation District, 100 East Sunnyoaks Avenue, Campbell, California 95008, e-mail jnewby@westvalleysan.org.

BASIC FINANCIAL STATEMENTS

West Valley Sanitation District
of Santa Clara County
Statement of Net Position
June 30, 2015

	2015	2014
Assets		
Current Assets:		
Cash and investments	$ 31,197,441	$ 27,449,520
Accounts receivable	144,173	73,300
Accrued interest receivable	33,534	21,544
Prepaid expenses	82,618	102,807
Supplies and tools	6,871	72,586
Total Current Assets	31,464,637	27,719,757
Noncurrent Assets:		
Restricted cash and investments	1,710,112	1,666,752
Accounts receivable - future tax roll	200,433	240,474
OPEB asset	72,130	90,981
Capacity rights in treatment plant	24,788,969	23,206,776
Capital assets:		
Non-depreciable	4,983,303	5,137,683
Depreciable, net of accumulated depreciation	51,276,869	51,162,384
Total Capital Assets - Net	56,260,172	56,300,067
Total Noncurrent Assets - Net	83,031,816	81,505,050
Total Assets	$ 114,496,453	$ 109,224,807
Deferred Outflows of Resources		
Pension benefits and adjustments	$ 502,625	$ -

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

West Valley Sanitation District
of Santa Clara County
Statement of Net Position
June 30, 2015

	2015	2014
Liabilities		
Current Liabilities:		
Accounts payable	$ 340,493	$ 283,766
Accrued salaries and benefits	147,932	131,930
Accrued interest payable	69,561	77,990
Current portion of long-term obligations	1,461,897	1,379,798
Total Current Liabilities	2,019,883	1,873,484
Noncurrent Liabilities:		
Liabilities payable from restricted assets:		
Customer deposits	247,244	237,244
Hillside deposits	684,525	651,571
Storm drain deposits	316,358	319,035
Total Liabilities Payable from Restricted Assets	1,248,127	1,207,850
Long-term obligations, net of current portion	10,145,511	7,856,766
Total Noncurrent Liabilities	11,393,638	9,064,616
Total Liabilities	$ 13,413,521	$ 10,938,100
Deferred Inflows of Resources		
Pension obligations and adjustments	$ 1,165,634	$ -
Net Position		
Net Investment in Capital Assets and Capacity Rights	$ 73,398,595	$ 70,688,204
Unrestricted	27,021,328	27,598,503
Total Net Position	$ 100,419,923	$ 98,286,707

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

West Valley Sanitation District
of Santa Clara County
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	2015	2014
Operating Revenues:		
Sewer service charges	$ 20,577,939	$ 18,491,094
Permit, inspection and other fees	411,604	398,050
Labor and overhead billed	31,109	26,053
Storm drain fees	112,801	110,286
Capacity fees	625,427	538,369
Total operating revenues	21,758,880	19,563,852
Operating Expenses:		
Sewer maintenance	2,515,183	2,978,147
Service extension	1,117,665	1,263,934
Sewage disposal	6,681,850	6,177,658
General and administrative	2,267,425	2,315,991
Depreciation and amortization	4,215,263	4,003,521
Total operating expenses	16,797,386	16,739,251
Operating Income (Loss)	4,961,494	2,824,601
Nonoperating Revenues (Expenses):		
Interest income	122,792	110,238
Interest expense	(281,430)	(316,372)
Connection fees	1,220,773	1,262,342
Gain (loss) on disposal of property, plant and equipment	(903)	(2,979)
Other income (expense)	47,013	67,281
Total nonoperating revenues (expenses)	1,108,245	1,120,510
Net Income (loss) before contributions	6,069,739	3,945,111
Capital contributions - contributed facilities	360,700	172,651
Change in net position	6,430,439	4,117,762
Beginning net position	98,286,707	94,168,945
Prior period adjustment - GASB 68 pension adjustments	(4,297,223)	-
Beginning net assets - as adjusted	93,989,484	94,168,945
Ending net position	$ 100,419,923	$ 98,286,707

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

West Valley Sanitation District
of Santa Clara County
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

	2015	2014
Cash Flows from Operating Activities:		
Cash received from customers and users	$ 21,737,216	$ 19,631,702
Intergovernmental credits	-	136,035
Cash payments to suppliers	(8,077,084)	(7,800,533)
Cash payments to employees	(4,422,832)	(4,466,067)
Other cash received (paid)	31,109	26,053
Net Cash Provided (Used) by Operating Activities	9,268,409	7,527,190
Cash Flows from Noncapital Financing Activities:		
Other income	47,013	67,281
Net Cash Provided (Used) by Noncapital Financing Activities	47,013	67,281
Cash Flows from Capital and Related Financing Activities:		
Cash received from capital contributions	1,581,473	1,434,993
Acquisition and construction of capital assets	(5,758,464)	(10,044,162)
Principal paid on long-term debt	(1,168,093)	(1,140,668)
Interest paid on long-term debt	(289,859)	(323,583)
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,634,943)	(10,073,420)
Cash Flows from Investing Activities:		
Investment income	110,802	112,422
Net Cash Provided (Used) by Investing Activities	110,802	112,422
Net Increase (Decrease) in Cash and Cash Equivalents	3,791,281	(2,366,527)
Cash and Cash Equivalents Beginning	29,116,272	31,482,799
Cash and Cash Equivalents Ending	$ 32,907,553	$ 29,116,272
Reconciliation of Operating Income to Cash Flows Provided (Used) by Operating Activities:		
Operating Income (Loss)	$ 4,961,494	$ 2,824,601
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	4,215,263	4,003,521
Pension expense adjustments - GASB 68	(211,712)	
Prior period adjustment	46,169	-
(Increase) decrease in:		
Accounts receivable	(30,832)	16,181
Due from other government	-	136,035
Prepaid expenses	20,189	-
Supplies and tools	65,715	343,700
OPEB asset	18,851	-
Increase (decrease) in:		
Accounts payable	56,727	125,430
Accrued salaries and benefits	16,002	-
Deposits	40,277	77,722
Compensated absences	70,266	-
Net Cash Provided (Used) by Operating Activities	$ 9,268,409	$ 7,527,190

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

West Valley Sanitation District
of Santa Clara County
Statement of Fiduciary Net Position
Clean Water Program Agency Fund
June 30, 2015

	2015	2014
Assets		
Restricted cash and investments	$ 265,711	$ 172,145
Total Assets	$ 265,711	$ 172,145
Liabilities		
Deposits	$ 265,711	$ 172,145
Total Liabilities	$ 265,711	$ 172,145

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Reporting Entity

The financial statements of West Valley Sanitation District of Santa Clara County (the District) include the financial activities of the District as well as transactions made by the fiscal agent under authority granted by the District in various resolutions authorizing the issuance of revenue bonds. The District is a special district established as a sanitation district in the State of California and is exempt from federal income and State income taxes.

The Financial Reporting Entity

Although the nucleus of a financial reporting entity usually is a primary government, an organization other than a primary government, such as a stand-alone government, may serve as the nucleus for its financial reporting entity when the stand-alone government provides separately issued financial statements. A stand-alone government is a legally separate governmental organization that does not have a separately elected governing body and does not meet the definition of a component unit. West Valley Sanitation District meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

Component units are defined as legally separate organizations for which the primary government are financially accountable, and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District considered all potential component units in determining what organizations should be included in the financial statements. Since no other entities are controlled by, or rely upon the District, the reporting entity consists solely of the District. Based on these criteria, there are no component units to include in the District's financial statements.

Basis of Presentation

Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position display information about the West Valley Sanitation District. Business-type activities are financed in whole or in part by fees charged to external parties.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as interest income and connection fees, result from non-exchange transactions or ancillary activities.

Fiduciary funds are reported using the economic resources measurement focus. An agency fund is a fiduciary fund used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the Clean Water Program.

Measurement Focus and Basis of Accounting

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. 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.

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period; for example, prepaid items and deferred charges. Deferred inflows of resources is an acquisition of net position by the District that is applicable to a future reporting period; for example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

The District applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASBS No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

Statement of Net Position

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

- Net Investment in Capital Assets and Capacity Rights - 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.

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 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.

Revenues - Connection Fees

Connection fees represent a one-time contribution of resources to the District imposed on property owners to allow the District to recover the costs associated with the provision of sewer collection lines in the District. Connection fees are recognized as other non-operating revenues in the statement of revenues, expenses and changes in net position.

Budgets and Budgetary Accounting

The District adopts an operating budget at the beginning of each fiscal year. The District Manager & Engineer is authorized to transfer any unencumbered amounts from one department to another within the same major account, to transfer any unencumbered appropriation from one line item account to another within the same major account, and to move unencumbered appropriation from one major account to another. The major accounts are defined as salaries and employee benefits, maintenance and operation, capital outlay and reserves. Any additional appropriations require approval by the Board of Directors. The District prepares a separate Final Budget document that demonstrates compliance with budgetary control. This document is available to the public on the District’s website.

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) plans (Plans) and additions to/deductions from the Plans’ 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.

Cash and Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for deposits and investment risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Investments are reported in the statement of net position at fair value. Changes in fair market value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with original maturities of three months or less and amount categorized as “Cash in County Treasury” are considered cash equivalents.

Supplies and Tools

Supplies and small tools are stated at lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets are recorded at cost or, if contributed, at estimated value at time of acquisition. Depreciation is recognized on buildings, furniture, fixtures, equipment and subsurface lines by the straight-line method over their estimated useful lives. Capacity rights in the San Jose/Santa Clara Regional Wastewater Facility are being amortized over a 30-year period. The purpose of depreciation is to spread the cost equitably over the life of the asset.

District policy is to capitalize all assets, which cost $5,000 or more, and to charge to current operations all additions under that cost limit. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are also expensed in the current period.

Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium and discounts are reported as noncurrent assets along with any insurance payments made during issuance of the bond. Bond issuance costs, other than prepaid insurance, are expensed in the period incurred.

Compensated Absences

The District records the expense of employees' vacation and sick leave benefits in the period in which they accumulate and become vested.

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. Actual results could differ from those estimates.

Subsequent Events

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

Implemented New Accounting Pronouncements

GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27 (Issued 06/12). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement has been implemented as of June 30, 2015 resulting in a prior period adjustment of $4,343,392. See Note 9 for information related to the financial statement impact of this statement.

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

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

GASB Statement No. 71 – In November, 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement were required to be applied simultaneously with the provisions of Statement 68 and have been implemented as of June 30, 2015. See Note 9 for information related to the financial statement impact of this statement.

Upcoming New Accounting Pronouncements

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

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

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported
- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions
- Timing of employer recognition of revenue for the support of nonemployer contributing entities *not* in a special funding situation.

The District is in the process of determining the impact this statement will have on the financial statements, but does not anticipate a material impact on its financial statements.

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Effective date: the provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - CASH AND INVESTMENTS

The following summarizes the District's cash and investments at fair value as of June 30, 2015:

Cash and Investments	2015	2014
Unrestricted:		
County Treasury	$ 30,679,397	$ 26,908,987
Cash in banks	517,344	539,833
Cash on hand	700	700
Total Unrestricted Cash and Investments	31,197,441	27,449,520
Restricted:		
County Treasury	1,137,824	1,094,464
County Treasury - Clean Water Program Agency Fund	265,711	172,145
Held by City of San Jose for debt service reserve	572,288	572,288
Total Restricted Cash and Investments	1,975,823	1,838,897
Total Cash and Investments	$ 33,173,264	$ 29,288,417

The following summarizes the District's cash and investments by fund:

Summary by Fund	2015	2014
District Operating Fund (Enterprise Fund):		
Unrestricted	$ 31,197,441	$ 27,449,520
Restricted	1,710,112	1,666,752
Clean Water Program Agency Fund	265,711	172,145
Total Cash and Investments	$ 33,173,264	$ 29,288,417

Cash Deposits

Bank balances are insured up to $250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). The actual bank statement balance of the District's cash in bank exceeded the insured limit by $319,347 as of June 30, 2015. The difference between the book balance and the bank statement balance was for outstanding checks. 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 paragraph.

Investment Policy

The District has authorized staff to deposit cash with the Santa Clara County Treasurer in a series of pooled accounts with cash from various other governmental entities within the County, for investment purposes. The pooled cash is invested principally in bankers' acceptances, negotiable certificates of deposit and various U.S. Government Agency and commercial notes. Interest earned from such time deposits and investments is allocated quarterly to the District based on its average daily cash balances. The fair values of the accounts at June 30, 2015 and 2014 were provided by the County Treasurer.

The County's investment policies are governed by State statutes. In addition, the County has an investment committee, which prescribes written investment policies regarding the types of investments that may be made. The policies limit amounts that may be invested in anyone financial institution or amounts, which may be invested in long-term instruments.

During the years ended June 30, 2015 and 2014, the investment committee's permissible investments included obligations of the U.S. Government Agencies bills, notes or bonds and certain time deposits, certificates of deposit, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements, money market funds, medium term corporate notes or deposit notes and municipal obligations.

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. The District manages its exposure to interest rate risk by investing its cash in the County Treasury Investment Pool. The pool is managed by the County to minimize the sensitivity of investments to interest rate risk.

- *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 District invests its cash in the County Treasury Investment Pool which is not subject to a minimum legal rating.

- *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. The District does not have a written policy for custodial credit risk over deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

- *Concentration of Credit Risk* – The District limits in risks from concentrations by investing in County investment pool which invests in a variety of bankers' acceptances, negotiable certificates of deposit, and various U.S. Government Agency and commercial notes. There were no investments in any one issuer that represented five percent or more of the total investments as of June 30, 2015.

NOTE 3 – CAPITAL ASSETS

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

Description	Balance June 30, 2014	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2015
Non-depreciable:					
Land and Easements	$ 276,535	$ -	$ -	$ -	$ 276,535
Construction in Progress	4,861,148	350,169	-	(504,550)	4,706,767
Total Non-Depreciable	5,137,683	350,169	-	(504,550)	4,983,302
Depreciable:					
Subsurface Lines	92,356,289	1,760,341	-	504,550	94,621,180
Building	1,879,656	6,400	-	-	1,886,056
Intangible	205,401	73,072	(11,902)	-	266,571
Land Improvements	435,212	-	-	-	435,212
Furniture & Fixtures	137,933	-	(12,168)	-	125,765
Vehicle & Equipment	2,379,783	30,321	(77,675)	-	2,332,429
Total Depreciable	97,394,274	1,870,134	(101,745)	504,550	99,667,213
Less Accumulated Depreciation for:					
Subsurface Lines	43,436,260	2,003,227	-	-	45,439,487
Building	711,637	51,204	-	-	762,841
Intangible	187,881	14,091	(11,902)	-	190,070
Land Improvements	189,653	16,304	-	-	205,957
Furniture and Fixtures	129,025	2,674	(12,168)	-	119,531
Vehicle and Equipment	1,577,434	171,794	(76,771)	-	1,672,457
Total Accumulated Depreciation	46,231,890	2,259,294	(100,841)	-	48,390,343
Total Depreciable PPE - Net	51,162,384	(389,160)	(904)	504,550	51,276,870
Total PPE - Net	$ 56,300,067	$ (38,991)	$ (904)	$ -	$ 56,260,172

NOTE 4 - CAPACITY RIGHTS

The District has a contract with the Cities of San Jose and Santa Clara which gives the District rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the District to pay its share of debt service on the treatment plant. The District also pays costs based on 1) allocated flow capacity rights of the total plant capacity and 2) operation and maintenance share based upon actual sewage flow and strengths. The maintenance and operation costs, net of prior year credits, were $6,681,850 and $6,177,658, for the years ended June 30, 2015 and 2014, respectively.

The District is also required to pay a portion of plant improvements based on the District's capacity rights percentage. Plant improvement expenditures for the years ending June 30, 2015 and 2014 were $3,545,040 and $3,945,536, respectively.

Changes in capacity rights accounts are summarized as follows:

Capacity Rights in Treatment Plant	Balance June 30, 2014	Additions	Balance June 30, 2015
Treatment Plant	$ 55,340,385	$ 3,545,040	$ 58,885,425
Land	2,001,095	-	2,001,095
Total Capacity Rights in Treatment Plant	57,341,480	3,545,040	60,886,520
Less Accumulated Depreciation	(34,134,704)	(1,962,847)	(36,097,551)
Total Capacity Rights in Treatment Plant - Net	$ 23,206,776	$ 1,582,193	$ 24,788,969

NOTE 5 - LONG-TERM OBLIGATIONS

The District's long-term obligations consisted of the following as of June 30, 2015:

Long-term Obligations	Original Issue	Balance July 01, 2014	Additions	Deductions	Balance June 30, 2015	Current Portion	Noncurrent Portion
Long-term Debt:							
2005 Series A Sewer Revenue Refunding Bonds, 3.25-5.00%, Due 11/15/2016	$5,722,879	$ 1,742,183	$ -	$ 584,789	$ 1,157,394	$ 613,922	$ 543,472
2010 Sewer Revenue Refunding Bonds, 2.00-4.25%, Due 10/1/2030	6,385,000	5,495,000	-	235,000	5,260,000	245,000	5,015,000
State Revolving Fund Loan 1.803%, Due 6/30/2019	6,214,891	1,581,456	-	348,304	1,233,152	354,654	878,498
Total Long-term Debt		8,818,639	-	1,168,093	7,650,546	1,213,576	6,436,970
Net Pension Liability - PERS		-	4,739,452	1,270,781	3,468,671	-	3,468,671
Compensated Absences		417,925	70,266	-	488,191	248,321	239,870
Total Long-term Obligations		$ 9,236,564	$ 4,809,718	$ 2,438,874	$ 11,607,408	$ 1,461,897	$ 10,145,511

2005 Clean Water Financing Authority Refunding Bonds, Series A and B

In September 2005, the District entered into a financing agreement with the Cities of San Jose and Santa Clara and the other tributary agencies of the San Jose/Santa Clara Regional Wastewater

Facility whereby $81,150,000 of revenue bonds were issued. The Series A bonds have a fixed interest rate. The Series B bonds had a variable rate. The proceeds from the bonds were used to fully refund the 1995 Series A and B bond issue. The District's share of the bonds is 10.594%. The agreement calls for semi-annual payments in May and November to the City of San Jose through November 2016. The bonds are secured by a lien on the revenues derived by the Clean Water Financing Authority (Authority) from the improvement agreement by and among the Authority and the Cities of San Jose and Santa Clara. The District's share of the Series B bond issue was paid off as June 30, 2009.

2010 Sewer Revenue Refunding Bonds

In April 2010, the District issued Sewer Revenue Refunding Bonds to refund and defease the outstanding 2000 Water and Wastewater Revenue Bonds. The bonds are secured by the District's System Net Revenues. Principal is payable annually and the bonds have an interest rate from 2.0% to 4.25% that is payable semi-annually through October 1, 2030.

State Revolving Fund Loan

In fiscal year ended June 30, 1999, the District entered into a financing agreement with the Cities of San Jose and Santa Clara and the other tributary agencies of the San Jose/Santa Clara Regional Wastewater Facility whereby $73,566,018 in State Revolving Fund Loan program funds were received. These funds have a fixed interest rate of 1.803%. The proceeds were used to additionally finance the South Bay Water Recycling Project. The District's share of the SRF loan is 8.448%. The agreement calls for semi-annual payments in April and October to the City of San Jose through April 2019. The loan is secured by a lien on the revenues derived by the Clean Water Financing Authority (Authority) from the improvement agreement by and among the Authority and the Cities of San Jose and Santa Clara.

The District’s debt service requirements were as follows as of June 30, 2015:

Year Ending June 30,	Principal	Interest	Total
2016	$ 1,213,576	$ 246,758	$ 1,460,334
2017	1,154,593	212,403	1,366,996
2018	632,706	188,528	821,234
2019	419,671	173,462	593,133
2020	285,000	161,388	446,388
2021 - 2025	1,585,000	640,539	2,225,539
2026 - 2030	1,920,000	295,231	2,215,231
2031	440,000	9,350	449,350
Total Debt Service	$ 7,650,546	$ 1,927,659	$ 9,578,205

NOTE 6 - CONTRIBUTEED FACILITIES

Generally the District receives contributions to capital from three basic sources: reimbursements for the cost of lines providing new sewer service under the Septic System Abandonment Program (SSAP), reimbursements for the cost of connecting to main sewer lines, and lines installed and paid for by developers who are required to contribute their sewers to the District as a condition of project approval.

In 1986 the District initiated the Septic System Abandonment Program (SSAP) to bring sewer mains within reach of residences which are still served by private septic systems. The District identifies urban residential area where a majority of the homeowners would be interested in abandoning their private septic systems and connecting to the public sewers. Homeowners participate on a voluntary basis after the District informs them of their pro rata share of project costs.

SSAP contributions to capital consist of reimbursement for project costs, as identified at project completion from residence connecting to the new subsurface lines. These projects costs include design, construction, overhead and contingencies.

In addition to SSAP projects and other recorded subsurface lines, the District maintains an unrecorded inventory of parcels, which are not yet connected to the District's main sewers. This inventory of collectible connection will be billed to future users at the time they connect their property to the District's sewer. The connection fees charged to these properties will be based upon the estimated construction costs at the time the sewer connection permit is issued.

This collectible connection is an unrecorded asset because the District cannot estimate the amount or timing of the expected receipts. The value of lines contributed by developers is recorded at the cost of building the line as established by estimates prepared by the District's engineering department prior to project approval.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The District is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disaster. The District joined together with other entities to form the California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating a common risk management and insurance program for 60 member entities. 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 pays annual premiums to CSRMA for its general liability, property damage, workers compensation insurance and automobile coverage.

CSRMA is governed by a Board composed of one representative from each member agency. The Board controls the operations of CSRMA including selection of management and approval of operating budgets, independent of any influence by member entities. CSRMA is not a component unit of the District, and the District's share of CSRMA's assets, liabilities, and equity has not been calculated.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2014 (most recent information available):

Assets	$ 27,379,073
Liabilities	16,413,379
Net Position	10,965,694
Revenues	10,812,970
Expenses	11,887,608

The following is a summary of the insurance policies in force carried by the District as of June 30, 2015:

Type of Coverage	Limits	Deductible
General Liability	$ 15,000,000	$ 25,000
Excess General Liability	25,500,000	15,500,000
Special Form Property	2,910,408	5,000
Employee Dishonesty Bond	100,000	1,000
Worker's Compensation	750,000	None
Excess Worker's Compensation Liability	Statutory	750,000
Public Entity Physical Damage	901,500	5,000
Public Entity Pollution Liability	25,000,000	50,000 Tier 1
Public Entity Pollution Liability	25,000,000	100,000 Tier 2
Public Official Bond	50,000	None
Cyber Liability	2,000,000	5,000
Crime Policy	2,000,000	2,500
Identity Theft	25,000	None

In addition to the primary insurance types provided for through CSRMA listed above, the District also maintains employee fidelity bonds, public employee dishonesty and public official bonds. Settled claims for CSRMA or employee fidelity bonds have not exceeded coverage in any of the past three fiscal years. Audited financial statements of CSRMA may be obtained at 100 Pine Street, 11th Floor, San Francisco, CA 94111-5101.

No material claims have been filed against the District to date.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

Plan Description - The District provides benefits to eligible employees through cost-sharing multiple employer defined benefit pension plans (the Plan) administered by the California Public Employees' Retirement System (CalPERS). Members of the Plan include all permanent employees working full-time. Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 (age 52 for employees affected by the California Public Employees' Pension Reform Act) with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after 10 years of service. The death benefit is 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, 2015, are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50	52
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.0%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	15.70%	6.25%

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

	Miscellaneous
Inactive employees receiving benefits	37
Inactive employees entitled to not receiving benefits	13
Active members	27
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 rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous
Contributions - employer	$ 458,892
Contributions - employee	239,511

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 3,468,671

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 is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous
Proportion - June 30, 2013	0.1446%
Proportion - June 30, 2014	0.1403%
Change	-0.0043%

For the year ended June 30, 2015, the District recognized pension expense of $271,628. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 483,340	$ -
Adjustment due to differences in proportions	19,285	-
Net differences between projected and actual earnings on plan investments		(1,165,634)
Total	$ 502,625	$ (1,165,634)

The District reported $483,340 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Fiscal Year Ended June 30,	**Recognized to Pension Expense**
2016	$ (284,520)
2017	(284,520)
2018	(285,899)
2019	(291,410)
Total	$ (1,146,349)

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

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

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

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

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

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

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

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

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

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

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

	Miscellaneous
1% Decrease	6.50%
Net Pension Liability	$ 6,180,099
Current Discount Rate	7.50%
Net Pension Liability	$ 3,468,671
1% Increase	8.50%
Net Pension Liability	$ 1,218,443

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 10 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District provides post-retirement benefits to eligible employees in the form of reimbursement for post-retirement health insurance premiums. Retired employees have a choice of remaining on the District's group health insurance plan or purchasing a plan of their choice. Reimbursement is made quarterly upon receipt of proof of payment. The District's contribution is capped at the amount of the Kaiser premium which was set at, $683 per month per individual for fiscal year 2015, $668 per month per individual for fiscal year 2014, and $627 for fiscal year 2013.

The Board of Directors adopts a policy annually establishing the benefit provision.

In order to qualify for postemployment medical benefits, an employee must retire from the District with at least 15 years of District service.

The District contracts with CalPERS to administer its retiree health benefits plan and to provide an investment vehicle, the California Employees' Retiree Benefit Trust Fund (CERBT), to prefund future OPEB costs. The District chooses from a menu of benefit provisions and adopts certain benefit provisions by Board policy. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. By participating in CERBT, the District is also obligated to follow the actuarial assumptions established by the CalPERS Board of Administration. CalPERS issues a Comprehensive Annual Financial Report for the retirement plans. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, CA, 95814.

Funding Policy

The District's policy is to fund the Annual Required Contribution (ARC) of these benefits by accumulating assets with CERBT discussed above pursuant to the District's annual budget approved by Board and make benefit payments directly using District assets. The annual required contribution (ARC) was determined as part of a June 30, 2013 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The District's annual required contribution of the employer (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The fiscal year 2015 ARC is $166,000.

Annual OPEB Cost, Net OPEB Obligation and Funded Status and Progress.

The following table, based on the District's actuarial valuation as of June 30, 2015, shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's Net OPEB obligation (asset):

	2015	2014
Annual required contribution	$ 166,000	$ 323,000
Interest on net OPEB obligation	(6,596)	(32,000)
Adjustment to annual required contribution	25,774	101,000
Annual OPEB cost (expense)	185,178	392,000
Contributions made	(166,327)	(324,977)
Increase in net OPEB obligation	18,851	67,023
Net OPEB obligation (asset) - beginning	(90,981)	(438,343)
Adjustment to OPEB obligation	-	280,339
Net OPEB obligation (asset) - ending	$ (72,130)	$ (90,981)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2015 are as follows:

Annual OPEB Cost Fiscal Year Ended	Annual OPEB Cost	Contributions as Percentage of Annual OPEB Cost	Net OPEB Obligation/ (Asset)
June 30, 2013	$ 198,241	66%	$ (438,343)
June 30, 2014	392,000	83%	(90,981)
June 30, 2015	185,178	90%	(72,130)

Using the most recent actuarial valuation dated June 30, 2015, the following is the funded status of the OPEB plan:

Actuarial accrued liability (AAL)	$ 2,704,000
Value of plan assets	2,175,520
Unfunded actuarial accrued liability (UAAL)	$ 528,480
Funded ratio (actuarial value of plan assets/AAL)	80%
Projected covered payroll (active Plan members)	$ 2,533,000
UAAL as a percentage of covered payroll	21%

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

Actuarial Methods and Assumptions

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

In the June 30, 2015 actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 7.25% investment rate of return (net of administrative expenses), inflation rate of 3%, projected salary increases of 3.25% and an annual medical cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% by 2021. The plan's unfunded actuarial accrued liability in each year is amortized on a level dollar basis over a closed 4 year period. The actuarial value of assets is equal to the fair value of plan assets, including any receivable contributions.

REQUIRED SUPPLEMENTARY INFORMATION

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West Valley Sanitation District
of Santa Clara County
Schedule of Contributions - Pension Plans
June 30, 2015

	2015
Contractually Required Contributions (Actuarially Determined)	$ 396,060
Contributions in Relation to Actuarially Determined Contributions	396,060
Contribution Deficiency (Excess)	-
Covered Employee Payroll	**2,829,829**
Contributions as a Percentage of Covered Payroll	**14.00%**

Notes to Schedule:

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

** Fiscal year 2015 was the first year of implementation. Therefore, only one year is shown.

West Valley Sanitation District
of Santa Clara County
Schedule of Proportionate Share of Net Pension Liability
June 30, 2015

	2015
District's Proportion of Net Pension Liability	0.574%
District's Proportionate Share of Net Pension Liability	3,468,671
District's Covered Employee Payroll	2,829,829
District's Proportionate Share of NPL as a % of Covered Employee Payroll	**122.58%**
Plan Fiduciary's Net Position as a % of the TPL	**83.03%**

** Fiscal year 2015 was the first year of implementation. Therefore, only one year is shown.

West Valley Sanitation District
of Santa Clara County
Schedule of Funding Progress for the Retiree Health Benefit Plan
June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
6/30/2011	$ 920,000	$ 2,304,000	$ 1,384,000	40%	$ 2,327,000	59%
6/30/2013	1,534,000	2,134,000	600,000	72%	2,533,000	24%
6/30/2015	2,134,000	2,704,000	570,000	79%	2,533,000	23%

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OTHER INDEPENDENT AUDITOR'S REPORTS

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 Valley Sanitation District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Valley Sanitation District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 4, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com

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 4, 2015
San Jose, California

1475 Saratoga Ave, Suite 180, San Jose, CA 95129
Tel: 408-217-8749 • E-Fax: 408-872-4159
info@cnallp.com • www.cnallp.com