BAY AREA WATER SUPPLY & CONSERVATION AGENCY

FINANCIAL STATEMENTS
JUNE 30, 2017

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

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

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BAY AREA WATER SUPPLY & CONSERVATION AGENCY

ELECTED OFFICIALS AND MANAGEMENT TEAM
JUNE 30, 2017

BOARD OF DIRECTORS

Robert Anderson, Purissima Hills Water District
Jay Benton,Town of Hillsborough
Randy Breault, Guadalupe Valley Water District
Charlie Bronitsky, Estero Municipal Improvement District
Tom Chambers, Westborough Water District
Rob Guzzetta, California Water Service Company
Mike Kasperzak, City of Mountain View
Kirsten Keith, City of Menlo Park
Patrick Kolstad, City of Santa Clara
Gustav Larsson, City of Sunnyvale
Sam Liccardo, City of San Jose
Juslyn Manalo, City of Daly City
Al Mendall, City of Hayward
Chris Mickelsen, Coastside County Water District
Larry Moody, City of East Palo Alto
Irene O'Connell, City of San Bruno
Rosalie O'Mahony, City of Burlingame
Tom Piccolotti, North Coast County Water District
Barbara Pierce, City of Redwood City
Dan Quigg, City of Millbrae
Sepi Richardson, City of Brisbane
Greg Schmid, City of Palo Alto
Rich Tran, City of Milpitas
Louis Vella, Mid-Peninsula Water District
John Weed, Alameda County Water District
Tom Zigterman, Stanford University

MANAGEMENT TEAM

Nicole Sandkulla, CEO/General Manager
Tom Francis, Water Resources Manager
Adrianne Carr, Senior Water Resources Specialist
Andree Johnson, Senior Water Resources Specialist
Christina Tang, Finance Manager
Lourdes Enriquez, Assistant to the CEO/ General Manager
Deborah Grimes, Office Manager
Vacant, Water Conservation Rep/Office Assistance

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bay Area Water Supply & Conservation Agency
San Mateo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Bay Area Water Supply & Conservation Agency (the "Agency"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 Agency'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 Agency'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Bay Area Water Supply & Conservation Agency, as of June 30, 2017, and the respective changes in its financial position and its cash flows thereof for the year then ended with accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements

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themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.

C & A LLP

October 11, 2017
San Jose, California

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BASIC FINANCIAL STATEMENTS

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS		
Current Assets:		
Cash and investments	$	2,538,955
Operating assessments receivable		146,166
Revenue bond surcharges receivable		1,839,326
Subscription Conservation programs receivables: Washing Machine Rebate		6,309
Subscription Conservation programs receivables: other		114,605
Other receivables		125
Prepaid expenses		55,669
Total Current Assets		4,701,155
Noncurrent Assets:		
Property and equipment - net		6,579
Cash with fiscal agent		27,974,322
Prepaid future capital facility obligations		318,845,317
Deposit		14,067
Total Noncurrent Assets		346,840,285
TOTAL ASSETS	$	351,541,440
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions and adjustments	$	307,944
LIABILITIES		
Current Liabilities:		
Accounts payable	$	292,149
Accrued expenses		33,186
Accrued interest		3,296,749
Unearned revenue		99,667
Current portion of long-term liabilities		13,683,573
Total Current Liabilities		17,405,324
Noncurrent Liabilities:		
Long-term liabilities - net of current portion		320,740,278
TOTAL LIABILITIES	$	338,145,602
DEFERRED INFLOWS OF RESOURCES		
Pension benefits and adjustments	$	145,356
NET POSITION		
Net Investment in Capital Assets	$	6,579
Restricted for Debt Service		11,619,196
Unrestricted		1,932,651
TOTAL NET POSITION	$	13,558,426

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

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

OPERATING REVENUE:	
Assessments	$ 3,440,025
Revenue bond surcharges	24,558,417
Subscription Conservation programs	1,184,654
Total operating revenue	29,183,096
OPERATING EXPENSES:	
Consultants	1,113,475
Administration	1,735,503
Depreciation	873
Subscription Conservation programs	1,145,574
Capital facility surcharge amortization	12,560,424
Total operating expenses	16,555,849
OPERATING INCOME	12,627,247
NON-OPERATING REVENUES (EXPENSES):	
Interest expense	(13,056,775)
Interest income	1,914,479
Total non-operating revenues	(11,142,296)
CHANGE IN NET POSITION	1,484,951
NET POSITION - BEGINNING	12,073,475
NET POSITION - ENDING	$ 13,558,426

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

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from assessments	$ 3,351,802
Cash received from revenue bond surcharges	24,723,176
Cash received from Subscription Conservation programs	1,085,174
Cash paid for employee services and other operating expenses	(2,794,577)
Cash paid for Subscription Conservation programs	(1,153,934)
Net Cash Provided by (Used for) Operating Activities	25,211,641
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest paid on revenue bond	(13,008,987)
Principal payments on revenue bond	(11,485,000)
Purchases of property and equipment	(6,619)
Net Cash Provided by (Used for) Capital Related Financing Activities	(24,500,606)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income and realized gains (losses) - net	(14,369)
Net Cash Provided by (Used for) Investing Activities	(14,369)
NET INCREASE IN CASH AND CASH EQUIVALENTS	696,666
CASH AND CASH EQUIVALENTS - BEGINNING	29,816,611
CASH AND CASH EQUIVALENTS - ENDING	$ 30,513,277
Reconciliation of operating income to net cash provided by (used for) operating activities	
Operating income (loss)	$ 12,627,247
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	873
Amortization of prepaid capacity charges	12,560,424
Amortization of pensions deferrals	(30,248)
Change in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(88,223)
(Increase) decrease in surcharges receivable	164,759
(Increase) decrease in Subscript. Cons. programs receivables: WMRP	1,336
(Increase) decrease in Subscription Conservation programs receivables: other	(63,376)
(Increase) decrease in prepaid expenses	5,966
Increase (decrease) in accounts payable	78,679
Increase (decrease) in accrued expenses	(65)
Increase (decrease) in accrued compensated absences	(1,833)
Increase (decrease) in net OPEB obligation	(6,458)
Increase (decrease) in unearned revenue	(37,440)
Net Cash Provided by (Used for) Operating Activities	$ 25,211,641
SUMMARY OF CASH AND CASH EQUIVALENTS:	
Cash and investments	$ 2,538,955
Cash with fiscal agent	27,974,322
Total cash and cash equivalents	$ 30,513,277

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

NOTE 1 - SUMMARY OF ORGANIZATION

Bay Area Water Supply & Conservation Agency (the "Agency" or "BAWSCA") was formed on May 27, 2003. BAWSCA currently represents the interests of 24 cities and water districts, and 2 private utilities, in Alameda, Santa Clara and San Mateo counties that purchase water on a wholesale basis from the San Francisco regional water system.

BAWSCA was enabled by Assembly Bill No. 2058 and has the authority to coordinate water conservation, supply and recycling activities for its members; acquire water and make it available to other agencies on a wholesale basis; finance projects, including improvements to the regional water system; and build facilities jointly with other local public agencies or on its own to carry out BAWSCA's purposes.

BAWSCA is the only regional entity having the authority to represent the needs of the cities, water districts and private utilities (wholesale customers) that depend on the regional water system. BAWSCA provides the ability for the customers of the regional system to work with San Francisco to ensure the water system gets fixed, and to work with its members to meet local responsibilities.

BAWSCA is governed by a 26 member Board of Directors comprised of community leaders appointed by the cities and water districts that are members of BAWSCA, and two private utility service areas; Stanford University and California Water Service Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the nature of the measurement.

BAWSCA is accounted for as an enterprise fund, which is used to account for operations similar to a private business enterprise where the intent of BAWSCA is that the costs and expenses, including depreciation, of providing services to the members on a continuing basis be financed or recovered primarily through user charges.

As an enterprise fund, BAWSCA presents financial information on the economic resources measurement focus and uses the full accrual basis of accounting. With the economic resources 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. Under the accrual basis of accounting, all revenues are recognized when earned, and all expenses, including depreciation, are recognized when liabilities are incurred.

Deferred outflow of resources is a consumption of net assets by the Agency that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflow of resources is an acquisition of net assets by the Agency 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.

BAWSCA applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued Statement No. 62*, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 also amends GASB 62 and AICPA Pronouncements paragraphs 64, 74, and 82. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The sources of authoritative GAAP are categorized in descending order of authority as follows:

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

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

1. ***Statement of Net Position***

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

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.

- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation. The Agency 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.

2. ***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. Revenues are reported by major source with operating revenues classified from BAWSCA's primary operating resources and all other revenue reported as non-operating. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating.

Budgets and Budgetary Accounting

BAWSCA must adopt a budget prior to July 1 of each year for the following fiscal year. The budget for the fiscal year beginning July 01, 2016, was adopted by the Board of Directors in May of 2016.

Cash & Cash Equivalents

BAWSCA's cash deposits are considered to be cash on hand and cash in banks. For purposes of the statement of cash flows, BAWSCA considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

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

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

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.

- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.

- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

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

Receivables

Receivables include amounts due from member assessments, water conservation programs, grants and other resources. All receivables are current and reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was zero as of June 30, 2017.

Capital Assets

Capital Assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available.

The Agency depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. The Agency depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Agency has assigned the useful lives listed below to capital assets:

Equipment	5 years
Furniture and fixtures	7 years

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

BAWSCA has a policy whereby employees can accumulate unused vacation which is reported as compensated absences, a liability in the statement of net position.

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 Agency's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Revenue and Expenditure Recognition

Conservation program expenses are recorded in the period that PG&E processes and pays the rebates, which is when the expense is considered measurable and the liability is incurred. Program revenues are recorded when the expense is recorded. All pass-through revenues and expenses are reported separately at gross, in accordance with accounting principles generally accepted in the United States of America.

Accounting Estimates

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

Subsequent Events

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

Implemented New Accounting Pronouncements

GASB Statement No. 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.

This statement did not have a direct impact on the Agency's financial statements.

GASB Statement No. 77, ***Tax Abatement Disclosures.*** - 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.

This statement did not have a direct impact on the Agency's financial statements.

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

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

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

This statement did not have a direct impact on the Agency's financial statements.

GASB Statement No. 80, *Blending Requirements.* - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

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

Upcoming New Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. - The provisions in Statement 75 are effective for 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 Agency is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 81, Irrevocable Split-Interest Agreements. - The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

The Agency has determined this statement will not have a significant impact on the Agency's financial statements.

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The Agency is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

GASB Statement No. 83, *Certain Asset Retirement Obligations.* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The Agency is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

GASB Statement No. 84, *Fiduciary Actives.* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The Agency is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

GASB Statement No. 85, *OMNIBUS 2017.* - The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB

- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. The Agency is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

GASB Statement No. 86, *Certain Debt Extinguishment Issues.* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. The Agency is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

GASB Statement No. 87, *Leases.* - This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Agency is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

NOTE 3 - CASH AND INVESTMENTS

Summary of Cash and Investments

As of June 30, 2017, BAWSCA had cash of $387,911 at Boston Private Banking, petty cash of $632, and cash invested in the California Local Agency Investment Fund (LAIF) of $2,305,278. The bank balances are insured by Federal Deposit Insurance Company ("FDIC") up to $250,000 per entity at each bank. The differences between the bank balances and the carrying amount are due to reconciling items such as deposits in transit and outstanding checks. BAWSCA's cash in bank exceeded FDIC insurance by $137,911 as of June 30, 2017. However, this balance was fully collateralized per Government Code.

Fair Value Measurements

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

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

The Agency has the following recurring fair value measurements as of June 30, 2017:

- California Local Agency Investment Fund (LAIF) of $2,305,278; valued using Level 2 inputs.

Collateral and Categorization Requirements

The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency's total deposits.

Investment Policy

BAWSCA's investment policy follows the California Government Code which authorizes BAWSCA to invest in its own bonds, certain time deposits, obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper, bankers' acceptances with maturities not to exceed 270 days, and medium-term notes issued by corporations operating within the U.S., commercial paper rated P-1 or higher by Moody's or A-1 by Standard & Poor's commercial paper record, repurchase agreements of obligations of the U.S. Government or its agencies for a term of one year or less and the Local Agency Investment Fund.

Local Agency Investment Fund

BAWSCA participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates. LAIF allows local agencies such as BAWSCA to participate in a Pooled Money Investment Account managed by the State Treasurers Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF.

The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value.

The total amount invested by all public agencies in LAIF, as of June 30, 2017, was approximately $77.6 billion. Of that amount, 99.12% is invested in non-derivative financial products and 0.88% in structured notes and asset-backed securities.

Cash with Fiscal Agent

BAWSCA also had cash with fiscal agent totaling $27,974,322. Cash with fiscal agent represents deposits in trust accounts, and in BAWSCA's name, from revenue bond proceeds remaining after issuance, capital facility surcharges collected to repay the revenue bonds, and minimum reserve requirements established by bond covenants.

General Reserve

BAWSCA maintains a general reserve (the "General Reserve") which is invested in LAIF. At the end of each year, excess funds are to be transferred into the General Reserve. BAWSCA's general reserve was $1,202,592 as of June 30, 2017.

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.

- *Credit Risk* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the BAWSCA's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. BAWSCA does not have a policy for custodial credit risk for deposits. However, 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 percent 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 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

- *Concentration of Credit Risk* - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. BAWSCA's investment policy contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code.

Although authorized to invest in more vehicles, BAWSCA manages its investment risks by limiting its investments to LAIF.

NOTE 4 - OPERATING LEASES

On May 6, 2011, BAWSCA entered into a lease for office space on the 6th floor at 155 Bovet Road in San Mateo, CA. The lease commenced on August 1, 2011 and expires on September 30, 2016. The lease was extended on December 15, 2015 with a new monthly base rent ranging from $12,499 to $14,067, commencing on October 1, 2016 and expiring on September 30, 2021.

The future minimum lease payments were as follows as of June 30, 2017:

Fiscal Year	Minimum Lease Payments
2018	$ 153,360
2019	157,960
2020	162,699
2021	167,580
2022	42,202
Total Minimum Lease Payments	$ 683,801

Rent expense for the fiscal year ended June 30, 2017 was $138,304.

NOTE 5 - LONG-TERM DEBT

BAWSCA's long-term obligations consisted of the following as of June 30, 2017:

Long-term Obligations	Balance July 01, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year
2013 Revenue Bonds	$313,250,000	$ -	$ 11,485,000	$301,765,000	$11,755,000
2013 Revenue Bonds Premium - Net	33,859,080	-	1,881,060	31,978,020	1,881,060
Net OPEB Obligation	162,246	-	6,458	155,788	-
Net Pension Obligation	368,743	92,070	-	460,813	-
Compensated Absences	66,063	-	1,833	64,230	47,513
Total Long-term Obligations	$347,706,132	$ 92,070	$ 13,374,351	$334,423,851	$13,683,573

In 2013, BAWSCA issued $335,780,000 in Revenue Bonds at a premium of $42,434,667 with an interest rate ranging from 1 to 5 percent. The Bonds were used to prepay capital cost recovery payment obligations of certain retail water service providers in Alameda County, Santa Clara County and San Mateo County, who are members of BAWSCA, to the City and County of San Francisco pursuant to a water supply agreement providing for the delivery of water to Members through the San Francisco Regional Water System. The bonds are secured by surcharges (revenue bond member assessments) imposed by BAWSCA on water sold to its Members and collected by the Public Utilities Commission of the City and County of San Francisco. The Bonds are fully registered with principal due annually on October 1 and interest payable semi-annually on April 1 and October 1.

BAWSCA's Revenue Bonds debt service requirements were as follows as of June 30, 2017:

Year Ending June 30,	Principal	Interest	Total
2018	11,755,000	12,731,902	24,486,902
2019	12,130,000	12,346,435	24,476,435
2020	12,525,000	11,935,787	24,460,787
2021	12,950,000	11,498,915	24,448,915
2022	13,400,000	10,986,383	24,386,383
2023-2027	76,075,000	45,634,554	121,709,554
2028-2032	94,805,000	26,343,676	121,148,676
2033-2035	68,125,000	4,419,456	72,544,456
Total Debt Service	$ 301,765,000	$ 135,897,108	$ 437,662,108

NOTE 6 - EMPLOYEE RETIREMENT BENEFITS

General Information about the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Agency's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Agency resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Tier 1	PEPRA
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	6.886%	7.000%
Required employer contribution rates	10.523%	7.191%

Employees Covered - At June 30, 2017, the following employees were covered by the benefit terms for the Plan:

	Miscellaneous
Active	8
Transferred	-
Separated	4
Retired	3
Total	15

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 Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous
Contributions - employer	$ 94,469
Contributions - employee	44,235
Total	$ 138,704

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

As of June 30, 2017, the Agency reported net pension liabilities for its proportionate shares of the net pension liability totaling $460,813.

The Agency'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, 2016, 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, 2015 rolled forward to June 30, 2016 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The Agency's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	Miscellaneous
Proportion - June 30, 2015	0.0134%
Proportion - June 30, 2016	0.0133%
Change in Proportions	-0.0002%

For the year ended June 30, 2017, the Agency recognized pension expense of $76,366. At June 30, 2017, the Agency 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	$ 105,314	$ -
Changes in assumptions	-	(31,555)
Differences between expected and actual experiences	3,335	(764)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	(65,222)	(12,754)
Net differences between projected and actual earnings on plan investments	264,517	(100,283)
Total	$ 307,944	$ (145,356)

The Agency reported $105,314 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Fiscal Year Ending:	Deferred Outflows/(inflows) of Resources
2018	$ (20,989)
2019	(17,854)
2020	53,579
2021	42,538
Total	$ 57,274

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

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

Discount Rate - The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by the CalPERS Board were used. For the Plan, the crossover test was performed for a miscellaneous agent rate plan and a safety agent rate plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the rate plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for Public Employees Retirement Fund (PERF). The crossover test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

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. 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	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-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 Agency's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Agency'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	6.65%
Net Pension Liability	$ 795,951
Current Discount Rate	7.65%
Net Pension Liability	$ 460,813
1% Increase	8.65%
Net Pension Liability	$ 183,838

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 7 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

BAWSCA contributes toward post-retirement benefits for employees who retire after age 50 with at least 5 years of service. For employees new to CalPERS on or after January 1, 2013, the minimum retirement age is 52. Retired employees may select any of the medical plans offered by CalPERS. BAWSCA pays the full amount of the monthly medical premium, subject to a phase-in under the "unequal contribution" method, which phases in to the full premium amount over a period of years. The retiree may cover dependents, and may add dependents after retirement if a qualifying event occurs. Payments are made for the lifetime of the retired employee and dependent spouse. No dental, vision or other post-retirement benefits are provided to retired employees.

Funding Policy

The Agency's annual required contribution of the employer (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal annual costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC is $133,244.

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

The following table, based on the Agency's actuarial valuation as of July 1, 2016, shows the components of the Agency's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Agency's Net OPEB obligation (asset):

Annual required contribution	$ 133,244
Interest on net OPEB obligation	10,364
Adjustment to annual required contribution	(12,700)
Annual OPEB cost (expense)	130,908
Contributions made	(137,366)
Increase in net OPEB obligation	(6,458)
Net OPEB obligation (asset) - beginning	162,246
Net OPEB obligation (asset) - ending	$ 155,788

The Agency'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, 2017 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset)
June 30, 2017	$ 130,908	105%	$ 155,788
June 30, 2016	$ 151,562	95%	$ 162,246
June 30, 2015	$ 142,528	89%	$ 153,962

The following summarizes the funded status and progress of the plan as of June 30, 2017:

Actuarial accrued liability (AAL)	$ 1,112,086
Actuarial value of plan assets	321,063
Unfunded actuarial accrued liability (UAAL)	$ 791,023
Funded ratio (actuarial value of plan assets/AAL)	29%
Projected covered payroll (active Plan members)	$ 1,012,897
UAAL as a percentage of covered payroll	78%

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

Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the entry age normal funding method was used. The actuarial assumptions included a 6.73 percent investment rate of return, inflation rate of 5 percent and an annual medical cost trend rate of 6.4 percent initially, reduced by decrements to an ultimate rate of *5.5* percent after five years. The plan's unfunded actuarial accrued liability in each year is amortized on a level dollar basis over the closed 30-year period beginning July 1, 2012.

NOTE 8 - RISK MANAGEMENT

BAWSCA is exposed to various risk of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In an effort to manage its risk exposure, BAWSCA is a member of the Special District Risk Management Authority ("SDRMA"). SDRMA is a risk-pooling self-insurance authority created for the purpose of arranging and administering programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

As a member of the SDRMA, BAWSCA participated in the general and auto liability, public officials' and employees' errors and omissions and employment practices liability program, which retained coverage of up to $2.5 million. BAWSCA’s general liability deductible is $500 for general liability property damage, and $1,000 for auto liability property damage. BAWSCA is insured for $200 million of each worker’s compensation claim through the SDRMA pool. Excess workers’ compensation employer’s liability is covered up to $5 million. There were no accrued losses for insurance claims as of June 30, 2017. There were no settlements that exceeded insurance coverage for fiscal year ended June 30, 2017.

<u>Special District Risk Management Authority</u> is a not-for-profit public agency formed under California Government Code Section 6500 *et seq.* and provides a full-service risk management program for California's local governments. For more than 20 years, SDRMA has provided comprehensive property, liability and workers' compensation protection with rates that are consistently 15% below average market rates.

Condensed financial information for SDRMA for the fiscal year ended June 30, 2016 is as follows:

Total Assets & Deferred Outflows	$	111,015,788
Total Liabilities and Deferred Inflows		(58,872,404)
Net Assets	$	52,143,384

Total Revenues	$	64,793,147
Total Expenses		(61,339,889)
Change in Net Assets	$	3,453,258

REQUIRED SUPPLEMENTARY INFORMATION

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

SCHEDULE OF PENSION CONTRIBUIONS - CALPERS
JUNE 30, 2017

	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	$ 97,937	$ 90,344	$ 82,744
Contributions in Relation to Actuarially Determined Contributions	97,937	90,344	82,744
Contribution Deficiency (Excess)	-	-	-
Covered Employee Payroll	**$ 925,621**	**$ 758,766**	**$ 715,210**
Contributions as a Percentage of Covered Payroll	**10.58%**	**11.91%**	**11.57%**

Notes to Schedule:

Valuation Date:	June 30, 2015
Assumptions Used:	Entry Age Method used for Actuarial Cost Method
	Level Percentage of Payroll (Closed) Used Amortization Method
	3.7 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 three years are shown.

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
JUNE 30, 2017

	2017	2016	2015
Proportion of Net Pension Liability	0.01327%	0.01344%	0.01300%
Proportionate Share of Net Pension Liability	$ 460,813	$ 368,743	$ 321,291
Covered Employee Payroll	$ 925,621	$ 758,766	$ 715,210
Proportionate Share of NPL as a % of Covered Employee	**49.78%**	**48.60%**	**44.92%**
Plan's Fiduciary Net Position as a % of the TPL	**81.49%**	**81.54%**	**82.94%**

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

SCHEDULE OF FUNDING PROGRESS
RETIREE HEALTHCARE PLAN
JUNE 30, 2017

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))
7/1/2014	198,203	894,701	696,498	22.15%	965,965	72%
7/1/2015	315,218	1,033,942	718,724	30.49%	1,007,571	71%
7/1/2016	321,063	1,112,086	791,023	28.87%	1,012,897	78%

SUPPLEMENTAL INFORMATION

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BAY AREA WATER SUPPLY & CONSERVATION AGENCY

SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual (Budget Basis)	Variance
OPERATING REVENUE	$ 3,440,734	$ 3,440,734	$ 3,440,025	$ (709)
OPERATING EXPENSES:				
Consultants:				
Reliability	964,600	964,600	838,791	125,809
Fair Pricing	409,000	409,000	163,106	245,894
Administration	95,000	95,000	111,578	(16,578)
Subtotal Consultants	1,468,600	1,468,600	1,113,475	355,125
Administration:				
Salaries and benefits	1,477,395	1,477,395	1,515,687	(38,292)
Rent	103,263	103,263	138,304	(35,041)
Other supplies and services	356,450	356,450	159,092	197,358
Subtotal Administration	1,937,108	1,937,108	1,813,083	124,025
Other operating expenses	62,300	62,300	7,519	54,781
Total operating expenses	3,468,008	3,468,008	2,934,077	533,931
OPERATING INCOME (LOSS)	(27,274)	(27,274)	505,948	533,222
NON-OPERATING REVENUE (EXPENSE):				
Interest income	-	-	13,219	13,219
Total non-operating revenue (expense)	-	-	13,219	13,219
CHANGE IN NET POSITION	(27,274)	(27,274)	519,167	546,441
NET POSITION - BEGINNING	1,807,127	1,807,127	1,807,127	-
NET POSITION - ENDING	$ 1,779,853	$ 1,779,853	$ 2,326,294	$ 546,441

RECONCILIATION OF BUDGET BASIS TO GAAP:	
Changes in Net Position - Budget Basis	$ 519,167
Change in compensated absences	1,833
Beginning budgetary net position differences	58,674
Pension expense adjustments	30,248
Conservation program revenue	1,184,654
Conservation program expenses	(1,145,574)
Capital facility surcharge amortization	(12,560,423)
Revenue bond surcharges	24,546,302
Revenue bond interest income	1,901,260
Revenue bond interest expense	(13,056,775)
Change in net OPEB obligation	6,458
Depreciation	(873)
Changes in Net Position - GAAP Basis	1,484,951
Net Position - Beginning Adjusted	12,073,475
Net Position - Ending	$13,558,426

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2017

	Subscription Fund	Home Water Use Reports Fund	Revenue Bond Fund	Operating Fund	Total
Assets					
Current Assets:					
Cash and investments	$ 22,661	$ 253,405	$ -	$ 2,262,889	$ 2,538,955
Assessments receivable	-	-	-	146,166	146,166
Revenue bond surcharges receivable	-	-	1,839,326	-	1,839,326
Subscription Cons. programs receivables: WMRP	6,309	-	-	-	6,309
Subscription Cons. programs receivables: other	108,105	8,629	-	(2,129)	114,605
Other receivables	125	-	-	-	125
Prepaid assets	44	-	-	55,625	55,669
Total Current Assets	137,244	262,034	1,839,326	2,462,551	4,701,155
Noncurrent Assets:					
Property and equipment - net	-	-	-	6,579	6,579
Cash with fiscal agent	-	-	27,974,322	-	27,974,322
Prepaid future capital facility obligations	-	-	318,845,317	-	318,845,317
Deposit	-	-	-	14,067	14,067
Total Noncurrent Assets	-	-	346,819,639	20,646	346,840,285
Total Assets	$ 137,244	$ 262,034	$ 348,658,965	$ 2,483,197	$ 351,541,440
Deferred Outflows Of Resources					
Pension contributions and adjustments	$ -	$ -	$ -	$ 307,944	$ 307,944
Liabilities					
Current Liabilities:					
Accounts payable	$ 37,577	$ 53,393	$ -	$ 201,179	$ 292,149
Accrued expenses	-	-	-	33,186	33,186
Accrued interest	-	-	3,296,749	-	3,296,749
Unearned revenue	99,667	-	-	-	99,667
Current portion of long-term liabilities	-	-	13,636,060	47,513	13,683,573
Total Current Liabilities	137,244	53,393	16,932,809	281,878	17,405,324
Noncurrent Liabilities:					
Long-term liabilities - net of current portion	-	-	320,106,960	633,318	320,740,278
Total Liabilities	$ 137,244	$ 53,393	$ 337,039,769	$ 915,196	$ 338,145,602
Deferred Inflows Of Resources					
Pension benefits and adjustments	$ -	$ -	$ -	$ 145,356	$ 145,356
Net Position					
Net Investment in Capital Assets	$ -	$ -	$ -	$ 6,579	$ 6,579
Restricted for Debt Service	-	-	11,619,196	-	11,619,196
Unrestricted	-	208,641	-	1,724,010	1,932,651
Total Net Position	$ -	$ 208,641	$ 11,619,196	$ 1,730,589	$ 13,558,426

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Subscription Fund	Home Water Use Reports Fund	Revenue Bond Fund	Operating Fund	Total
Operating Revenue:					
Assessments	$ -	$ -	$ -	$ 3,440,025	$ 3,440,025
Revenue bond surcharges	-	-	24,546,302	12,115	24,558,417
Subscription Conservation programs	798,709	385,945	-	-	1,184,654
Total operating revenue	798,709	385,945	24,546,302	3,452,140	29,183,096
Operating Expenses:					
Legal services	-	-	-	627,874	627,874
Engineering services	-	-	-	125,091	125,091
Financial services	-	-	-	51,459	51,459
Strategic communications	10,501	-	-	182,431	192,932
Water conservation programs	825,416	306,840	-	22,214	1,154,470
Water resources planning	60	-	-	58,192	58,252
Automobile	-	-	-	7,800	7,800
Depreciation	-	-	-	873	873
Director fees	-	-	-	21,840	21,840
Filing fees	-	-	-	200	200
Insurance	-	-	-	15,710	15,710
Meetings	-	-	-	15,688	15,688
Dues and subscriptions	-	-	-	27,589	27,589
Sponsorships	-	-	-	9,068	9,068
Miscellaneous	-	-	-	200	200
Professional services	-	-	-	19,609	19,609
Office	2,480	-		183,680	186,160
Payroll tax expense	-	-	-	20,374	20,374
Salaries	-	-	-	1,012,897	1,012,897
Employee benefits	-	-	-	431,620	431,620
Temporary personnel	-	-	-	1,009	1,009
Training	-	-	-	7,070	7,070
Travel and entertainment	-	-	-	7,641	7,641
Capital facility surcharge amortization	-	-	12,560,423	-	12,560,423
Total operating expenses	838,457	306,840	12,560,423	2,850,129	16,555,849
Operating Income	(39,748)	79,105	11,985,879	602,011	12,627,247
Non-Operating Revenues (Expenses):					
Interfund transfers in	19,625	72,312	-	23,969	115,906
Interfund transfers out	(72,955)	-	-	(42,951)	(115,906)
Interest expense	-	-	(13,056,775)	-	(13,056,775)
Interest income	-	-	1,901,260	13,219	1,914,479
Total non-operating revenues	(53,330)	72,312	(11,155,515)	(5,763)	(11,142,296)
Change In Net Position	(93,078)	151,417	830,364	596,248	1,484,951
Net Position - Beginning	93,078	57,224	10,788,832	1,134,341	12,073,475
Net Position - Ending	$ -	$ 208,641	$ 11,619,196	$ 1,730,589	$ 13,558,426

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OTHER INDEPENDENT AUDITOR'S REPORT

Chavan & Associates, LLP
Certified Public Accountants

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*

Board of Directors
Bay Area Water Supply & Conservation Agency

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 business-type activities of the Bay Area Water Supply & Conservation Agency (the "Agency") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 11, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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

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

Purpose of this Report

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

C & A LLP

October 11, 2017
San Jose, California

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