

BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

This Page Left Intentionally Blank

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2016 and 2015**

Table of Contents

	<u>Page</u>
<i>Independent Auditor's Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements</i>	
Statements of Net Position.....	6
Statements of Revenues, Expenses and Changes in Net Position.....	7
Statements of Cash Flows.....	8
Notes to Basic Financial Statements.....	9
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 <i>Government Auditing Standards</i>	17

This Page Left Intentionally Blank

INDEPENDENT AUDITOR'S REPORT

To Board of Directors
Bay Area Clean Water Agencies
Oakland, California

Report on Financial Statements

We have audited the financial statements of the Bay Area Clean Water Agencies (BACWA) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the BACWA 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 the 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 audits. We conducted our audits 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 of America. 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 BACWA'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 BACWA'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 Bay Area Clean Water Agencies as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

Management adopted the provisions of the following Governmental Accounting Standards Board Statement No. 72 – *Fair Value Measurement and Application*, which became effective during the year ended June 30, 2016 as discussed in Note 1D to the financial statements. This statement had no effect on the financial statements.

The emphasis of this matter does not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 this 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2016 on our consideration of the BACWA'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 the 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 BACWA's internal control over financial reporting and compliance.



Pleasant Hill, California
August 31, 2016

BAY AREA CLEAN WATER AGENCIES

Management's Discussion and Analysis

June 30, 2016 and 2015

This section presents management's discussion and analysis of the Bay Area Clean Water Agencies (BACWA) financial condition and activities as of and for the years ended June 30, 2016 and 2015. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Agency's basic financial statements. The MDA represents management's examination and analysis of the Agency's financial condition and performance.

This information should be read in conjunction with the audited financial statements that follow this section. The information in the MDA is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Request for Information

Organization and Business

The Bay Area Dischargers Association (BADA) was created as a public entity in accordance with the terms of a Joint Powers Agreement, dated January 4, 1984, for the purpose of collecting, interpreting and disseminating data on the aquatic life and quality of waters of the San Francisco Bay System (the Bay) with emphasis on pollution-related effects. Renamed BACWA on February 22, 2001, it is composed of BADA's five original signatory agencies ("BACWA principals"): East Bay Municipal Utility District (EBMUD), a public corporation; Central Contra Costa Sanitary District (CCCSD), a public corporation; East Bay Dischargers Authority (EBDA), a joint powers public corporation; the City and County of San Francisco (San Francisco), a municipal corporation; and the City of San Jose (San Jose), a municipal corporation. BACWA membership includes other San Francisco Bay Area sanitation agencies who are not BACWA principals. BACWA members contribute funds to cover operating expenses based on an annual work plan and budget, in accordance with sections 9 and 10 of BACWA's Joint Powers Agreement. There are thirteen associate members and forty-six affiliate members that contribute a minimum of \$7,803 and \$1,560 annually, respectively.

For additional information, please see the notes to the basic financial statements.

Overview of the Financial Statements

The financial statements include a *statement of net position*, a *statement of revenues, expenses, and changes in net position*, a *statement of cash flows*, and *notes to the financial statements*. The report also contains other required supplementary information in addition to the basic financial statements.

BACWA's financial statements include:

The *statement of net position* presents information on the Agency's assets and liabilities, with the difference between the two reported as net position. It provides information about the nature and amount of resources and obligations at year-end.

The *statement of revenues, expenses, and changes in net position* presents the results of the Agency's operations over the course of the fiscal year and information as to how the *net position* changed during the year.

BAY AREA CLEAN WATER AGENCIES

Management's Discussion and Analysis

June 30, 2016 and 2015

The *statement of cash flows* presents changes in cash and cash equivalents resulting from operational and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt.

The *notes to basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 8 to 13 of this report.

Financial Analysis:

Table 1 summarizes net assets at June 30, 2016 and 2015, and Table 2 summarizes revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015. Both tables also include variances from the prior year.

Table 1
Summary of Net Position

June 30, 2016 and 2015

	<u>2016</u>		<u>2015</u>		<u>Variance</u>
Current assets	\$ 3,790,215	\$	4,118,258	\$	(328,043)
Current liabilities	188,469		215,563		(27,094)
Net position:					
Restricted for operating projects	0		112,227		(112,227)
Unrestricted	3,601,746		3,790,468		(188,722)
Total net position	\$ 3,601,746	\$	3,902,695	\$	(300,949)

- Current Assets decreased by \$328,043 primarily due to the decrease in accounts receivable. Certain Propositions 84 and 50 projects had been completed and outstanding receivables from last fiscal year were collected in 2016.
- Current liabilities decreased by \$27,094 primarily due to the decrease in accounts payable.
- Restricted for operating projects Net Position decreased by \$112,227. Proposition 84 grants received were smaller than the disbursements this fiscal year.

The unrestricted Net Position decreased by \$188,722.

BAY AREA CLEAN WATER AGENCIES
Management's Discussion and Analysis
June 30, 2016 and 2015

Table 2
Summary of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Variance</u>
Operating revenues	\$ 5,213,956	\$ 10,063,579	\$ (4,849,623)
Operating expenses	<u>(5,532,687)</u>	<u>(10,705,290)</u>	<u>5,172,603</u>
Net Operating Loss	(318,731)	(641,711)	322,980
Nonoperating revenues	<u>17,782</u>	<u>9,358</u>	<u>8,424</u>
Change in net position	\$ <u><u>(300,949)</u></u>	\$ <u><u>(632,353)</u></u>	\$ <u><u>(331,404)</u></u>

- Operating revenue decreased by \$4,849,623 due to the decrease in Proposition 84 grant invoices this fiscal year. Since 75% of the grant has already been invoiced a continuous decline is expected in the next fiscal years.
- Operating expenses decreased by \$5,172,603 due to the decrease in Proposition 84 grant disbursements. In relation to the decrease in operating revenue, 75% of the grant has been expended so a continuous decline is expected in the next fiscal years.
- Non-operating revenues for the years ended June 30, 2016 and 2015 consisted primarily of interest income. The increase of \$8,424 is due to the increase in interest rates.

Request for Information

This financial report is designed to provide viewers with a general overview of The Bay Area Clean Water Agencies' finances and demonstrate BACWA's accountability for the monies it manages. If you have any questions about this report, or need additional information, please contact: the BACWA Treasurer, D. Scott Klein, PO Box 24055, MS 402, Oakland, CA 94623.

**BAY AREA CLEAN WATER AGENCIES
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
Cash and cash equivalents (Note 2)	\$ 110,750	\$ 84,854
Restricted cash and cash equivalents (Note 2)	2,941,600	3,507,600
Accounts receivable	733,358	523,001
Accrued interest receivable	4,507	2,803
Total assets	3,790,215	4,118,258
LIABILITIES		
Accounts payable	122,969	150,063
Miscellaneous liabilities	65,500	65,500
Total liabilities	188,469	215,563
NET POSITION (Note 1B)		
Restricted	-	112,227
Unrestricted	3,601,746	3,790,468
Total net position	\$ 3,601,746	\$ 3,902,695

See accompanying notes to financial statements

**BAY AREA CLEAN WATER AGENCIES
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Operating revenue:		
Member contributions	\$ 1,342,800	\$ 1,259,870
State grants	3,207,730	7,085,935
Other receipts	663,426	1,717,774
Total operating revenue	5,213,956	10,063,579
Operating expense:		
Professional services	(1,655,535)	(1,958,779)
General and administrative	(435,324)	(440,142)
Grants and other	(3,441,828)	8,306,369)
Total operating expense	(5,532,687)	10,705,290)
Operating Income(Loss)	(318,731)	641,711)
Nonoperating revenue:		
Interest income	17,782	9,358
Changes in net position	(300,949)	(632,353)
Total net position - beginning	3,902,695	4,535,048
Total net position - ending	\$ 3,601,746	\$ 3,902,695

See accompanying notes to financial statements

**BAY AREA CLEAN WATER AGENCIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Cash flows from operating activities:		
Cash received from member contributions	\$ 1,132,443	\$ 1,801,647
Cash received from State Grants	3,207,730	7,085,935
Cash received from other receipts	663,426	1,717,774
Cash paid for supplies and services	(5,559,781)	(10,746,065)
Net Cash from Operating Activities	(556,182)	(140,709)
Cash flows from investing activities:		
Interest received on investments	16,078	8,755
Net (decrease) increase in cash and cash equivalents	(540,104)	(131,934)
Cash and equivalents at beginning of period	3,592,454	3,724,388
Cash and equivalents at end of period	\$ 3,052,350	\$ 3,592,454
Reconciliation of net operating income (loss) to net cash provided by		
operating activities:		
Operating income	\$ (318,731)	\$ (641,711)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	(210,357)	541,777
Accounts payable and miscellaneous liabilities	(27,094)	(40,775)
Net cash flow used by operating activities	\$ (556,182)	\$ (140,709)

See accompanying notes to financial statements

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Bay Area Clean Water Agencies (BACWA) was organized on January 4, 1984 as the Bay Area Dischargers Association (BADA), and changed its name to BACWA effective February 22, 2001. BACWA was established for the purpose of collecting, interpreting and disseminating data on the aquatic life and quality of waters of the San Francisco Bay System with emphasis on pollution-related effects. BACWA is composed of five original BADA signatory agencies: East Bay Municipal Utility District (EBMUD), a public corporation; Central Contra Costa Sanitary District (CCCSD), a public corporation; East Bay Dischargers Authority (EBDA), a joint powers public corporation; the City and County of San Francisco (San Francisco), a municipal corporation; and the City of San Jose (San Jose), a municipal corporation. BACWA membership includes other San Francisco Bay Area sanitation agencies who are not BACWA principals. BACWA principals and other members contribute funds to cover operating expenses based on an annual work plan and budget, in accordance with Sections 9 and 10 of BACWA's Joint Powers Agreement. There are thirteen associate members and forty-six affiliate members that contribute a minimum of \$7,803 and \$1,560 annually, respectively.

BACWA has the following special programs. Each special program's revenues and expenses are tracked separately from BACWA's other revenues and expenses.

- *The Air Issues and Regulations Committee (AIR)* was created in 1987 to provide air quality information to publicly owned treatment works. On July 1, 1994, AIR became a group within BACWA, with revenues provided by participating agencies and expenditures determined by those agencies. On July 1, 2015, AIR began a three year transition to become a BACWA Committee with revenues provided by contributions from participating agencies and by BACWA.
- *State Proposition 50 (Prop50)* is a California Department of Water Resources (DWR) program to administer funds consistent with the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002. BACWA applied for and was awarded a Prop 50 grant, State grant No. 4600007654. The Prop 50 revenue and expenses include disbursements from DWR, disbursements to participating agencies, and administrative costs.
- *State Proposition 84 (Prop84)* is a California Department of Water Resources (DWR) program to administer funds consistent with the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Projection Bond Act of 2006. BACWA applied for and was awarded a Prop 84 grant, State Grant No. 4600009715. The Prop 84 revenue and expenses include disbursements from DWR, disbursements to participating agencies, and administrative costs.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *The Water Quality Attainment Strategies (WQAS)* is a program to develop and fund regional projects that benefit participants. The program changed its name to the Clean Bay Collaborative during Fiscal Year 2010. Revenues come from contributions from program participants and expenditures are determined by the BACWA principals.
- *The Regional Water Recycling Committee (RWR)* was established in 2007 to promote water recycling in order to protect the environment, develop reliable water supply and to sustain our economic viability in the Bay Area region.
- *Water/Wastewater Operator Training (WOT)* was a program formed with Solano County Community College to provide water operators with educational training to help them understand the standard environmental rules and regulations related to water and wastewater. Revenues are provided by participating agencies and expenditures determined by those agencies.

B. Basis of Accounting and Presentation

The accompanying financial statements report the financial position of BACWA in accordance with accounting standards generally accepted in the United States of America. As BACWA is exclusively comprised of governmental entities, the preparation of its financial statements is governed by the pronouncements of the Governmental Accounting Standards Board (GASB).

BACWA as a proprietary enterprise is accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

BACWA distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing deliverable goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for BACWA include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Net Position – The statement of net position is designed to display the financial position of BACWA. BACWA’s fund equity is reported as net position, which is the excess of all of the Agency’s assets and deferred outflow over all its liabilities and deferred inflows. Net Position is divided into three captions under GASB Statement 34. These captions apply only to Net Position and are described below:

Invested in capital assets describes an agency’s capital assets, including restricted capital assets, net of accumulated depreciation and reduced by any outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and fees charged for the provision of future water resources.

Unrestricted describes the portion of Net Position which is not restricted to use.

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. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

When both restricted and unrestricted resources are available for use, it is BACWA’s policy to use restricted resources first, then unrestricted resources as they are needed.

C. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. *Cash and Cash Equivalents*

BACWA considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

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 between market participants at the measurement date. BACWA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

E. Allocation of Costs

In accordance with the adopted work plan and approved budget for the year ended June 30, 2015, all costs incurred by BACWA for general overhead and for programs with general benefit are shared by BACWA members consistent with the terms of the Joint Powers Agreement establishing the agency, between each of the original signatory members.

Costs incurred for programs of special benefit are allocated in direct proportion to the benefits received as approved by BACWA's Executive Board.

AIR, Prop 50, Prop 84 and WOT have their own budgets, and their expenditures are funded from their own separate revenues.

F. New GASB Pronouncement

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement, which became effective during the year ended June 30, 2016.

GASB Statement No. 72 – *Fair Value Measurement and Application*. The intention of this Statement is to enhance the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It also enhances fair value application guidance and related disclosures.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 2 - CASH AND INVESTMENTS

A. Composition

BACWA's cash and cash equivalents consisted of the following at June 30:

	2016	2015
Demand deposits with banks	\$110,750	\$ 84,854
Time Certificate of Deposit	165,000	330,000
U.S. Government-Sponsored Enterprise Agencies (callable)	264,000	165,000
Local Agency Investment Fund	2,512,600	3,012,600
	\$3,052,350	\$3,592,454

B. Collateralization of Cash and Cash Equivalents

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of BACWA's cash on deposit or first trust deed mortgage notes with a value of 150% of BACWA's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in BACWA's name and places BACWA ahead of general creditors of the institution pledging the collateral. BACWA has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

BACWA's investments are carried at fair value, as required by generally accepted accounting principles. BACWA adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

C. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2016 and 2015.

D. Fair Value Hierarchy

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 2 - CASH AND INVESTMENTS (Continued)

The following is a summary of the fair value hierarchy of the fair value of investments of the District as of June 30, 2016:

2016		
Type	Level 2	Total
U.S. Government-Sponsored		
Enterprise Agencies (callable)	\$ 264,000.00	\$ 264,000.00
California Local Agency Investment Fund	2,512,600	2,512,600
Total Investments at Fair Value	<u>\$ 2,776,600.00</u>	<u>\$ 2,776,600.00</u>
Time Certificate of Deposit		165,000
Cash in Banks		110,750
Total Cash, Cash Equivalents and Investments	<u>\$ 2,776,600.00</u>	<u>\$ 3,052,350.00</u>
2015		
Type	Level 2	Total
U.S. Government-Sponsored		
Enterprise Agencies (callable)	\$ 165,000.00	\$ 165,000.00
California Local Agency Investment Fund	3,012,600	3,012,600
Total Investments at Fair Value	<u>\$ 3,177,600.00</u>	<u>\$ 3,177,600.00</u>
Time Certificate of Deposit		330,000
Cash in Banks		84,854
Total Cash, Cash Equivalents and Investments	<u>\$ 3,177,600.00</u>	<u>\$ 3,592,454.00</u>

Federal agency securities totaling \$264,000, classified in Level 2 of the fair value hierarchy, are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The California Local Agency Investment Fund, classified in Level 2 of the fair value hierarchy, is valued based on the fair value of the underlying assets of the pool. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 2 - CASH AND INVESTMENTS (Continued)

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. BACWA generally manages its interest rate risk by holding investments to maturity. BACWA's only investment in the California Local Agency Investment Fund has a maturity date of less than twelve months

F. Local Agency Investment Fund (LAIF)

BACWA is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code §16429 under the oversight of the Treasurer of the State of California. BACWA reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain State funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2016 and 2015, these investments matured in an average of 167 and 239 days, respectively.

NOTE 3 – RELATED PARTY TRANSACTION

As BACWA does not have any employees, EBMUD provides BACWA with ongoing treasury, accounting and auditing pass-through costs, and certain technical (laboratory) services, which are reimbursed by BACWA and the related organizations on no less than a quarterly basis. Total reimbursements for the year ended June 30, 2016 and 2015, were \$34,820 and \$37,488 respectively, and are primarily reflected in the general and administrative expenditures on the Statement of Revenues, Expenditures, and Changes in Net Position.

**BAY AREA CLEAN WATER AGENCIES
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 4 – RISK MANAGEMENT

BACWA’s liability and property risks are insured by commercial insurance carriers. Selected insurance coverage includes:

Coverage	Policy Limit
Bodily injury	\$5,000,000
Property damage	5,000,000
Personal injury	5,000,000
Non-owned and hired automobile liability	5,000,000
Public officials, errors and omissions	5,000,000
Fire damage liability	1,000,000
Employment practices liability	2,000,000
Information security and privacy liability	10,000,000

Any liability BACWA may have for uninsured claims are limited to general liability claims. However, BACWA has experienced no losses from such claims during the preceding three years and it therefore believes there is no liability for claims incurred but not reported.

**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
Bay Area Clean Water Agencies
Oakland, California

We have audited, in accordance with the 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 basic financial statements of the Bay Area Clean Water Agencies (BACWA), as of and for the year ended June 30, 2016 and the related notes to the financial statements, and have issued our report thereon dated August 31, 2016. Our report included an emphasis of a matter paragraph disclosing the implementation of a new accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BACWA'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 BACWA's internal control. Accordingly, we do not express an opinion on the effectiveness of the BACWA'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 BACWA'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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 BACWA's financial statements are free from 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*.

We have also issued a separate Memorandum on Internal Control dated August 31, 2016 which is an integral part of our audit and should be read in conjunction with this report.

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 BACWA'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 BACWA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mazze + Associates

Pleasant Hill, California
August 31, 2016