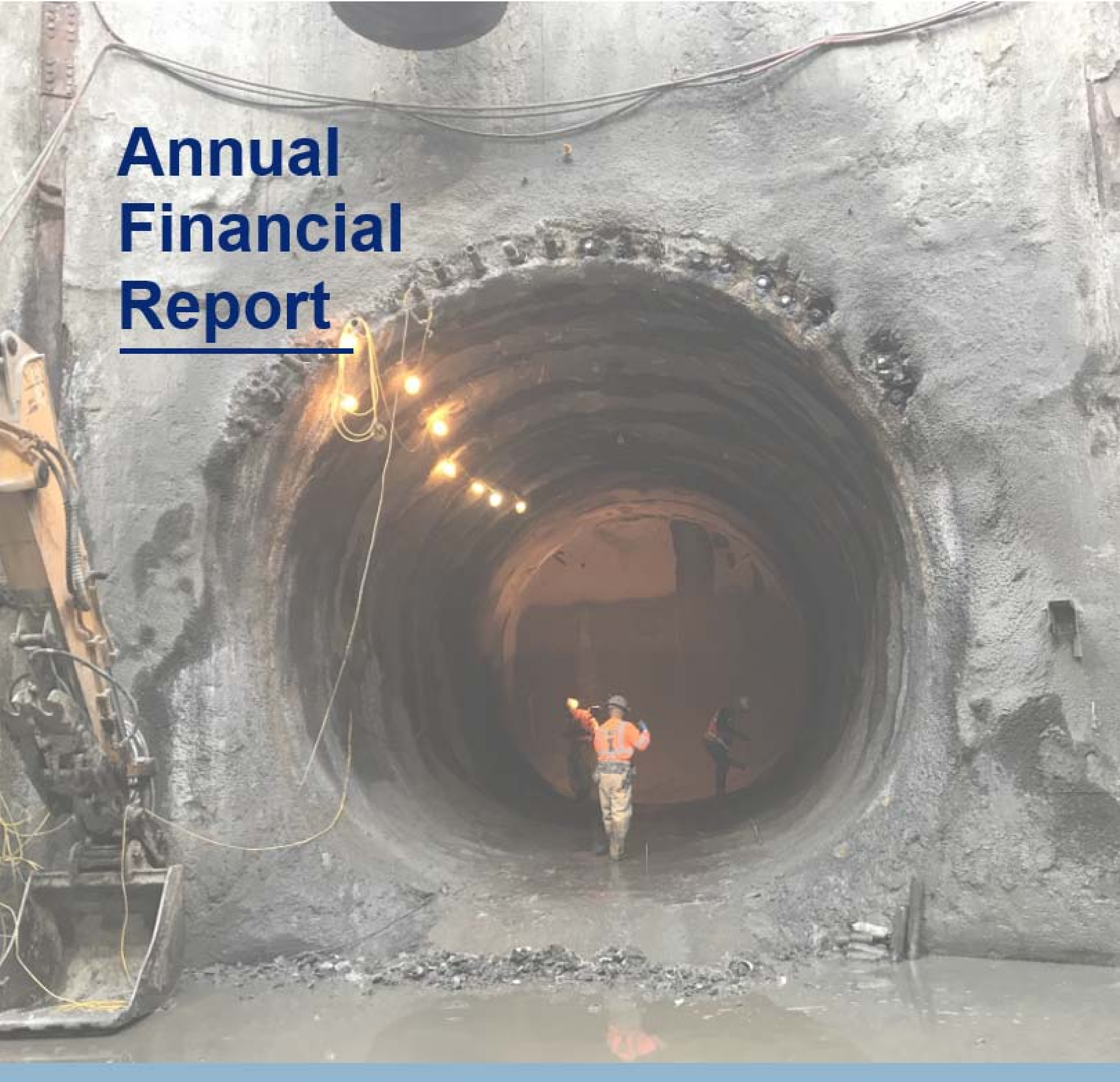
Annual Financial Report



Silicon Valley Clean Water
For the Year Ending June 30, 2019

SVCW
Silicon Valley Clean Water

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SILICON VALLEY CLEAN WATER

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2019

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Silicon Valley Clean Water

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June 30, 2019

MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Commission of Silicon Valley Clean Water
Redwood City, California

Report on the Financial Statements

We have audited the accompanying financial statements of Silicon Valley Clean Water ("SVCW"), California, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SVCW's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SVCW'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 SVCW'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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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of SVCW, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, 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 SVCW's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information, except for Schedule of analysis of Net Position, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary information, except for Schedule of analysis of Net Position, is fairly stated in all material respects in relation to the financial statements as a whole.

The Schedule of Analysis of Net Position has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019 on our consideration of SVCW'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 SVCW's internal control over financial reporting and compliance.

Prior Year Comparative Information

The financial statements and the related notes of SVCW as of June 30, 2018, were audited by other auditor whose report dated November 11, 2018, expressed an unmodified opinion on those statements.

Maze & Associates

November 25, 2019
Pleasant Hill, California

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Silicon Valley Clean Water (the "Authority", or "SVCW") has issued its financial statements for the fiscal year ended June 30, 2019 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). The Management of SVCW presents the following narrative overview and analysis of the financial activities, with comparative data for the fiscal year ended June 30, 2018. The Management's Discussion and Analysis (MD&A) section is an overview of SVCW's financial activities and is an integral part of the accompanying Basic Financial Statements. This information should be read in conjunction with the audited financial statements that follow this section.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

SVCW's revenues and expenses are recognized on a full accrual basis; revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. The basic financial statements are comprised of two components: Financial Statements and Notes to the Financial Statements. The Financial Statements report information about SVCW accounting using methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities and include:

- The *Statement of Net Position* presents SVCW assets and liabilities, with the difference between the two reported as *net position*. This statement provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the SVCW. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SVCW is improving or deteriorating.
- The *Statement of Activities and Changes in Net Position* accounts for revenues and expenses and reflects the results of SVCW operations over the course of the fiscal year. This statement can be used as an indicator of the extent to which SVCW recovers its costs through charges.
- The final required Financial Statement is the *Statement of Cash Flows*, with the primary purpose of providing information about SVCW's cash receipts and cash payments during the reporting period. In addition to cash receipts and payments, this statement illustrates net changes in cash resulting from operations and investments. It also answers questions about the sources and uses of cash, and describes the change in cash balance during the reporting period.

The Notes to Financial Statements provide information that is not displayed on the face of the financial statements but is essential to a reader's full understanding.

ORGANIZATION AND BUSINESS

SVCW is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal to the cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the "Members"), all of which are located in the northern part of Silicon Valley between the cities of San Francisco and San Jose. SVCW's wastewater treatment plant is located in the City of Redwood City and serves more than 200,000 people and businesses located predominantly in San Mateo County, California. SVCW operates in a robust Bay Area economy with a customer base that includes Oracle Corporation, EA Sports, and Facebook. In response to SVCW capital needs, ratepayers have already accommodated the majority of rate increases needed for large infrastructure improvements.

SVCW owns and operates a regional wastewater treatment plant with an average dry weather flow permit capacity of 29 million gallons per day, an approximately nine-mile influent force main pipeline that conveys wastewater from the Members to SVCW's treatment plant, five wastewater pump stations, and a 1.25-mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. SVCW also provides recycled water to the City of Redwood City.

A four-member "Commission" consisting of one appointed member from each of the Members' governing bodies governs SVCW. Voting is proportional to the Members' respective ownership interests in SVCW's wastewater system. A proportionally-weighted vote of at least three-fourths of the total Commission votes is required to adopt or amend bylaws, rules, and regulations; to adopt or modify any budget; to approve any capital costs, materials and construction contracts, appropriations, or transfers of more than $50,000; to employ the manager and certain consultants; to sell or dispose of property; and to approve other designated items. Other actions of the Commission must be approved by a majority of total possible votes. Any amendment of the Joint Powers Agreement requires the concurrence of all Members. In addition, any amendment to the Joint Powers Agreement must also be approved by a 4/5 vote by each of the Members' governing bodies.

The Joint Powers Agreement sets forth how SVCW's operating and capital costs are allocated to the Members. Operating costs are allocated to each Member based on a three-year average of each Member's annual pro-rata share of total wastewater flow and strength loadings as measured by biological oxygen demand ("BOD") and suspended solids ("SS"). As a result, the Budget for fiscal year 2018-19 allocates operating and maintenance costs to the Members as follows:

- City of Redwood City 46.4%
- West Bay Sanitary District 28.6%
- City of San Carlos 12.7%
- City of Belmont 12.3%

Capital costs are allocated per Members' share of capacity owned in various components of the wastewater system as established in the Joint Powers Agreement. All SVCW capital improvement expenditures are allocated as follows:

- City of Redwood City 48.57%
- West Bay Sanitary District 26.84%
- City of San Carlos 15.14%
- City of Belmont 9.45%

The following table shows a history of average daily wastewater flow conveyed to SVCW from each Member for the last five fiscal years.

Member	2014-15	2015-16	2016-17	2017-18	2018-19
Redwood City	6.1	6.4	7.8	7.2	7.7
West Bay	3.6	3.8	3.9	3.4	3.5
San Carlos	1.8	1.5	2.7	2.0	2.2
Belmont	1.9	1.7	2.0	1.6	1.8
Total	13.4	13.4	16.4	14.2	15.20

FINANCIAL ANALYSIS

Our analysis of SVCW begins on page 17 of the Financial Statements. One of the most important questions asked about SVCW's finances is "Is SVCW as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about SVCW's activities in a way that will help answer this question. These two statements report the net position of SVCW and changes in them, which helps measure the financial health of the organization. Over time, increases or decreases in SVCW's net position are one indicator of whether its financial health is improving or deteriorating. However, it is important to keep these indicators in context with other non-financial factors such as changes in economic conditions, population growth, climate, zoning, or the regulatory environment.

SVCW's fiscal year 2018-19 operating revenues and expenses were comparable both to the prior fiscal year as well as to the 2018-19 Budget. The most significant differences from the prior year were caused by increased debt service activities to fund ongoing capital improvements. This closely relates to cash expenditures of $118.1 million for capital improvement construction. The Regional Environmental Sewer Conveyance Upgrade (RESCU) program is in construction and includes a gravity pipeline tunnel, front-of-plant receiving and pretreatment facilities, and improvements to pump stations.

The Capital Improvement Program is largely funded through long-term borrowings and, to a lesser extent, member agency cash contributions. As of June 30, 2019, SVCW long-term debt was $338 million, a net decrease of $6 million after principal payments on Wastewater Revenue Bonds. The State Revolving Fund (SRF) loan balances increased by $1.4M after disbursements and repayments.

The SVCW Commission has an established reserve policy to protect its fiscal solvency. As of June 30, 2018, cash reserves totaled $34.4 million including an Operating Reserve, a Capital Improvement Program Reserve, and a Capacity Construction Reserve. Of this amount, the Authority has restricted $7.8 million as required by SRF loan agreements.

Like other governmental agencies, SVCW implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75) regrading accounting and reporting for post-employment benefits in fiscal year 2017-18.

FINANCIAL HIGHLIGHTS

- SVCW net position increased during fiscal year 2018-19 by $25.1 million (31.5%) from the previous year. The largest increase in net position occurred in the Capital Improvement Program Fund, which recognized $17.4 million in cash contributed by members not fully participating in SVCW long-term debt, a net $5.1 million reduction in debt principal owed, and $2.6 million in investment earnings. Other increases in net position included a $1.0 million increase in policy-required contributions and associated earnings in the Capital Improvement Program Reserve Fund, and a $3.1 million increase in the Construction Stage 2 Reserve Fund as development occurred in the community. The Operating Fund net position declined by $7.8 million after recognizing annual depreciation expense.
- The accounts receivable balance at year end increased by $1.2 million due to a $862 thousand receivable for Stage 2 capacity connection fee and a $600 thousand receivable related to the California Energy Commission.

- SVCW's net OPEB liability decreased by $724 thousand during the fiscal year as the Authority continued its prefunding program.
- SVCW's Pension liability decreased by $661 thousand primarily after recognition of CalPERS' changes in actuarial assumptions.
- Operating revenues increased $23.7 million (52.6%) from the previous year after members contributed more to pay increased debt service.
- Total expenses ended the fiscal year at $48.8 million, a $4.8 million increase (10.9%) compared to the prior year. Operating expenses were $2.2 million more than prior year as SVCW filled personnel vacancies, incurred ordinary inflationary pressures, and settled a legal claim. Non-operating expense increased $2.4 million (21.9%) as the Authority incurred more interest expense associated with additional debt. Depreciation increased by $150.3 thousand as capital projects were placed into service.
- Cash and investment balances, excluding restricted cash, declined $78.9 million as bond proceeds were used to pay for construction.
- Note that, subsequent to June 30, 2019 SVCW issued water revenue notes in August 2019 which generated $196.7 million for CIP projects.

NET POSITION

A summary of SVCW's Statement of Net Position is presented in Table 1, which indicates a $25.1 million increase in SVCW's net position from fiscal year 2018-19. Significant changes during the fiscal year included:

- Current Assets decreased by $76.3 million (48.8%) after cash from bond proceeds was spent on construction.
- Restricted assets marginally increased $130.2 thousand (1.7%) from the prior year-end balance of $7.7 million as SVCW set aside additional reserves for State Revolving Fund loans.
- Capital assets, net of depreciation, increased by $108.3 million (38.2%) as Construction in Progress balances associated with the Capital Improvement Program grow.
- Total SVCW liabilities increased by $6.3 million (1.7%) as SVCW withheld $6.1 million for construction retention. Other activity associated with liabilities included a reduction in long-term debt liabilities after payments, offset by increased accounts payable for construction.
- Deferred Outflows and Deferred Inflows represent changes in the components of Authority's pension liability. The most significant change in deferred inflows and outflows was the impact of CalPERS' changed assumptions and earnings.

TABLE 1
Condensed Statement of Net Position

	Fiscal Year 2019	Fiscal Year 2018	$ Higher / (Lower)	% Higher / (Lower)
Current and other assets	$ 80,094,833	$ 156,442,864	$ (76,348,031)	(48.8%)
Restricted assets	7,823,426	7,693,222	130,204	1.7%
Capital assets	391,416,119	283,126,844	108,289,275	38.2%
Total Assets	**479,334,378**	**447,262,930**	**32,071,448**	**7.2%**
Deferred Outflows	**5,611,134**	**6,236,059**	**(624,925)**	**(10.0%)**
Total Liabilities	**378,937,205**	**372,589,353**	**6,347,852**	**1.7%**
Deferred Inflows	**1,246,858**	**1,243,778**	**3,080**	**0.2%**
Net investment in capital assets	87,049,556	61,254,055	25,795,501	42.1%
Restricted	7,823,426	7,693,222	130,204	1.7%
Unrestricted	9,888,467	10,718,581	(830,114)	(7.7%)
Total Net Position	**$ 104,761,449**	**$ 79,665,858**	**$ 25,095,591**	**31.5%**

Table 2 below summarizes activities associated with all construction-related funds. Members contributed $1 million, $1.5 million, and $2.7 million, respectively, to Capital Reserves, pay-go capital projects, and Stage 2, respectively. In the Capital Improvement Program Fund, approximately $38.7 million was received to pay for debt service and project expenditures.

As part of continued expenditures on its Capital Improvement Program, SVCW spent $118.1 million on capital projects during fiscal year 2018-19. Specific expenditures included gravity pipeline tunnel, front-of-plant receiving and pretreatment facilities, and improvements to pump stations.

TABLE 2
Construction Fund Activity

	Capital Reserve (13 Fund)	New Capital (14 Fund)	Replacement (17 Fund)	Stage 2 (15 Fund)	Capital Improvement Program (20 Fund)	Totals
Member contributions	$ 1,000,008	$ 1,485,504	$ -	$ 2,747,284	$ 38,700,687	$ 43,933,483
Operating income	-	6,816	-	-	-	6,816
Interest Earnings	641,580	-	124,681	411,395	2,492,591	3,670,247
Total Revenue	**$ 1,641,588**	**$ 1,492,320**	**$ 124,681**	**$ 3,158,679**	**$ 41,193,278**	**$ 47,610,546**
Cash to construction	$ -	$ 838,118	$ -		$ 117,269,898	$ 118,108,016

While the Statement of Net Position shows the change in financial position from year to year, the Statement of Activities and Changes in Net Position (Table 3 below) addresses the nature and source of the changes. Total 2018-19 revenues increased from the prior year by $27.8 million (60.7%), of which Operating Revenues increased by $23.7 million (52.6%) and reflects increased contributions for debt service. Non-operating Revenues increased $4.1 million as interest income was earned on a higher balance of bond proceeds.

Fiscal year 2018-19 total expenses increased by $4.6 million (10.5%) over the prior year, which included changes in several key expenditures:

- Depreciation expense increased $150.3 thousand (1.7%) after new projects were placed into service during the year.
- Operating expenses were $2 million (8.5%) more than the prior year, primarily related to filling personnel vacancies and settlement of a claim.
- Non-operating expenses increased by $2.4 million, reflecting increased interest expense on outstanding debt.

TABLE 3

Condensed Statements of Activities and Changes in Net Position

	Fiscal Year 2019	**Fiscal Year 2018**	**$ Higher / (Lower)**	**% Higher / (Lower)**
Operating revenues	$ 68,827,874	$ 45,091,922	$ 23,735,952	52.6%
Non-operating revenues	4,797,281	730,108	4,067,173	557.1%
Capital Contributions	-	-	-	-
Total Revenues	**73,625,155**	**45,822,030**	**27,803,125**	**60.7%**
Depreciation expense	8,986,961	8,836,703	150,258	1.7%
Operating expense	26,215,903	24,169,268	2,046,635	8.5%
Non-operating expense	13,579,021	11,142,216	2,436,805	21.9%
Total Expenses	**48,781,885**	**44,148,187**	**4,633,698**	**10.5%**
Changes in Net Position	**24,843,270**	**1,673,843**	**23,169,427**	**1,384.2%**
Prior period adjustment	252,321	(3,686,613)	3,938,934	100.0%
Beginning net position	79,665,858	81,678,628	(2,012,770)	(2.5%)
Beginning net position - adjusted	79,918,179	77,992,015	1,926,164	2.5%
Ending Net Position	**$ 104,761,449**	**$ 79,665,858**	**$ 25,095,591**	**31.5%**

BUDGETARY HIGHLIGHTS

The SVCW Commission adopts an annual Operating Fund budget that provides for current activities and establishes a short-term spending plan aligned with SVCW financial goals. Budgets are prepared on the accrual basis of accounting. Table 4 below compares actual and budgeted expenditures for the Operating Fund during the year ended June 30, 2019.

TABLE 4
FY 2018-2019 Actual vs Budget

	Actual	Budget	$ Higher/ (Lower)	% Higher/ (Lower)
Member Contributions	$ 24,197,664	$ 24,213,623	$ (15,959)	(0.1%)
Source Control Revenue	51,206	65,000	(13,794)	(21.2%)
Other Revenue	397,330	426,198	(28,868)	(6.8%)
Total Operating Revenue	**24,646,200**	**24,704,821**	**(58,621)**	**(0.2%)**
Operations	8,487,280	9,187,056	(699,776)	(7.6%)
Maintenance	6,373,299	6,359,611	13,688	0.2%
Laboratory	1,710,575	1,764,871	(54,296)	(3.1%)
Environmental Services	1,147,991	1,173,532	(25,541)	(2.2%)
Engineering	903,887	763,033	140,854	18.5%
Information Services	1,585,728	1,687,833	(102,105)	(6.0%)
Safety	421,319	401,813	19,506	4.9%
Administration	4,842,475	3,642,071	1,200,404	33.0%
Depreciation	8,986,961	8,986,961	-	-
Total Operating Expenses	**34,459,515**	**33,966,781**	**492,734**	**1.5%**
Operating Income/(Loss)	**$ (9,813,315)**	**$ (9,261,960)**	**$ (551,355)**	**(6.0%)**

Inclusive of $9 million in depreciation, SVCW reported an Operating Fund loss of $9.8 million, which was $551.4 thousand more than budgeted during fiscal year 2018-19. Total expenses were $492.7 thousand (1.5%) more than budgeted. Significant variances by Division included:

- Operations: Expenses were $699.8 thousand less than budget due to improved performance of cogeneration engines, which reduced SVCW energy costs by nearly $200 thousand. Additionally, effective use of drying beds lowered biosolids hauling costs by $267 thousand, and conversion to lower-cost 40% concentrate of sodium bisulfite reduced chemical costs by $175 thousand.
- Laboratory Services: Below budget by $54.3 thousand (3.1%) due to personnel vacancies.

- Engineering: $140.9 thousand higher than budget due primarily to organization changes associated with the Authority Engineer position. Additionally, $43 thousand was spent to join the Bay Area's Potable Reuse Exploratory Plan (PREP) initiative.
- Information Services: Below budget by $140.0 thousand after certain support, backup, and restore services were not incurred in preparation for hardware upgrades.
- Safety: Higher than budget by $19.5 thousand (4.9%) due to unanticipated purchases of site signage and confined space equipment.
- Administration: Over budget by $1.1 million, largely associated with legal fees and payment to settle a claim.

CAPITAL ASSETS

SVCW has a Long-Range Capital Improvement Program to improve existing facilities, build new facilities, rehabilitate assets, repair or replace infrastructure, preserve assets, enhance safety and security, and perform needed maintenance. Significant investments in infrastructure have included replacement of significant lengths of the influent conveyance pipe, modernization of electronic control systems for activated sludge handling, upgrades of electrical systems. SVCW is in construction of its Regional Environmental Sewer Conveyance Upgrade (RESCU) program. This program replaces an existing force main with a gravity pipeline and constructs essential pretreatment facilities.

Consistent with the Capital Improvement Program, the Commission approved these and other capital improvements to protect public health, the environment, and agency facilities. Table 5 below provides a summary of SVCW capital assets and shows how, at the ends of fiscal years 2017-18 and 2018-19, Net Property Plant & Equipment (PP&E) was $151.6 million and $144.1 million, respectively. Additional information about SVCW's capital acquisitions and construction is presented in Note 5 to the financial statements.

TABLE 5
Capital Assets

	Balance at June 30, 2018	Additions	Deletions	Adjustments & Transfers	Balance at June 30, 2019
Land	$ 1,282,081	$ -	$ -	$ -	$ 1,282,081
Buildings & Struct.	84,599,149	-	-	163,804	84,762,953
Pipelines	55,151,004	-	-	307,200	55,458,204
Pump Stations	7,175,591	-	-	298,362	7,473,953
Machines & Equip.	92,427,359	-	(113,260)	860,170	93,174,269
Total PP&E, Cost	**240,635,184**	**-**	**(113,260)**	**1,629,536**	**242,151,460**
Accum. Depreciation	89,048,596	9,026,438	(16,607)	(40,454)	98,017,973
Total PP&E, Net	**$ 151,586,588**	**$ (9,026,438)**	**$ (96,653)**	**$ 1,669,990**	**$ 144,133,487**
Construction in Progress:					
Stage 2 Capacity	$ 2,934,618	$ -	$ -		$ 2,934,618
General	128,605,638	118,110,915	-	(2,368,539)	244,348,014
Total CIP	**$ 131,540,256**	**$ 118,110,915**	**$ -**	**$ (2,368,539)**	**$ 247,282,632**

LONG TERM DEBT

Including a Line of Credit but excluding Unamortized Premium on outstanding Bonds, SVCW had total long-term debt outstanding of $314.1 million as of June 30, 2019, a $4.2 million decrease from June 30, 2018. Components of SVCW's long-term debt liability as of June 30, 2019 include $262.7 million of Wastewater Revenue Bonds (excluding unamortized premiums of $24.7 million), and Notes Payable obligations to the California Clean Water State Revolving Fund for approximately $51.4 million.

When SVCW credit ratings were assigned in January 2018, Moody's maintained its Wastewater Revenue Bonds rating of Aa2, and Standard & Poor's (S&P) Ratings Services separately affirmed its 'AA' long-term rating with a stable outlook. More recently, in June 2019 Moody's assigned a Aa2 rating to SVCW's Water Infrastructure Finance and Innovation Act (WIFIA) loan and a Aa3 to its Wastewater Revenue Notes Series 2019A. For the same transaction, S&P assigned an A+ rating.

Wastewater Revenue Bonds

SVCW has $262.7 million outstanding in Wastewater Revenue Bonds par value, the proceeds for which were used to acquire and construct wastewater system improvements. These Bonds are limited obligations of SVCW, payable solely from and secured solely by the revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members). Table 6 below shows the total bonds outstanding for the fiscal years ended June 30, 2018 and 2019:

TABLE 6
Wasterwater Revenue Bonds

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2018	Issued (Redeemed)	Bonds Outstanding June 30, 2019
2009 Revenue Bond	2009	8/1/2039	1.74-8.1%	$ 55,855,000	$ 2,555,000	$ (1,250,000)	$ 1,305,000
2014 Revenue Bond	2014	2/1/2044	3.0-5.0%	60,000,000	56,135,000	(1,115,000)	55,020,000
2015 Revenue Bond	2015	8/1/2045	2.0-5.0%	70,200,000	68,650,000	(795,000)	67,855,000
2018 Revenue Bond	2018	8/1/2049	3.125-5%	140,955,000	140,955,000	(2,460,000)	138,495,000
Total Wastewater Revenue Bonds				**$327,010,000**	**$268,295,000**	**$ (5,620,000)**	**$262,675,000**

State Water Resources Control Board Loan

SVCW has financed three projects by entering into separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). Combined, the principal due on these agreements totaled $51.4 million as of June 30, 2019. The project funds, together with all accrued interest, are repaid in annual installments commencing one year after the completion of construction.

In August 2011, SVCW secured SWRCB funding for the construction of an administration and plant control building. The outstanding liability was $8.6 million as of June 30, 2019 and is scheduled to be fully repaid by June 2033.

In March 2012, SVCW entered a similar agreement with the SWRCB for up to $35.4 million for certain improvements to the wastewater treatment plant. The total outstanding balance as of June 30, 2019 totaled $28.8 million and the final payment is scheduled October 31, 2036.

In May 2018, SVCW entered a third SWRCB agreement for up to $14 million to plan improvements to its conveyance system. As of June 30, 2019, SVCW had incurred the full $14 million in expenditures under this project. SVCW intends to consolidate this loan into a subsequent construction loan associated with conveyance projects in 2020.

Line of Credit

On May 29, 2018, SVCW secured a $35 million line of credit with Wells Fargo Bank. Advances on the line of credit provide for an interest rate based on either a fixed per annum rate of interest equal to the LIBOR rate plus the Applicable LIBOR Rate Margin, or a variable per annum rate of interest equal to the Base Rate plus the Applicable Base Rate Margin. SVCW had no borrowings outstanding on the line of credit at June 30, 2019.

More detailed information about SVCW's long-term debt, Notes Payable, and Line of Credit is presented in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The approved Operating Budget for fiscal year 2019-20 recommends expenditures based on a prioritization of needs, goals and objectives; it also anticipates external cost pressures and provides a roadmap to meet the needs of the community in the coming fiscal year. The Budget considered ordinary inflationary pressures, and incorporated savings from operational improvements. Personnel costs are relatively unchanged in terms of staffing levels, though adjusted to incorporate terms of a Memorandum of Understanding (MOU) between SVCW and the International Union of Operating Engineers Stationary Local 39, AFL-CIO. A new MOU was ratified in October 2018 and expires on June 30, 2023.

Each Member Agency has proactively raised sewer rates to support its allocable share of funding requirements for SVCW's operations and Capital Improvement Program, as well to meet their own operating and capital needs.

Table 7 compares the fiscal year 2019-20 Operating Fund Budget to the fiscal year 2018-19 actual results. Total 2019-20 Operating Revenues are anticipated to increase $1.3 million (5.5%) from prior year actual revenues as Member Contributions increase to cover operating costs. Additionally, Other Revenues as SVCW implemented a stormwater program, recognized increased deliveries of food grease, and raised its rates charged for laboratory and source control services.

Total 2019-20 Operating Expenses are anticipated to increase $796.2 thousand (2.3%) from prior year actual expenditures. The largest increase over 2018-19 actual expenditures is from inflationary pressures on wages and other personnel costs, price hikes by chemical providers, and increased costs associated with hauling biosolids.

TABLE 7
FY 2019-2020 Budget vs FY 2018-2019 Actual

	FY 2019-2020 Budget	FY2018-2019 Actual	$ Increase / (Decrease	% Increase / (Decrease)
Member Contributions	$ 25,209,277	$ 24,197,664	$ 1,011,613	4.2%
Source Control Revenue	87,500	51,206	36,294	70.9%
Other Revenues	697,000	397,330	299,670	75.4%
Total Operating Revenue	**25,993,777**	**24,646,200**	**1,347,577**	**5.5%**
Operations	9,780,104	8,487,280	1,292,824	15.2%
Maintenance	6,474,578	6,373,299	101,279	1.6%
Laboratory	1,770,665	1,710,575	60,090	3.5%
Environmental Services	1,240,862	1,147,991	92,871	8.1%
Engineering	809,095	903,887	(94,792)	(10.5%)
Information Systems	1,813,120	1,585,728	227,392	14.3%
Safety	483,627	421,319	62,308	14.8%
Administration	3,896,727	4,842,475	(945,748)	(19.5%)
Depreciation	8,986,961	8,986,961	-	-
Total Operating Expenses	**35,255,739**	**34,459,515**	**796,224**	**2.3%**
Operating Income/(Loss)	**$ (9,261,962)**	**$ (9,813,315)**	**$ 551,353**	**5.6%**

CONTACTING SILICON VALLEY CLEAN WATER MANAGEMENT

This financial report is designed to provide SVCW officers, investors, stakeholders, and other interested parties with a general overview of SVCW's financial condition. If you have any questions about this report or need additional financial information, please contact the offices of the Manager or the Chief Financial Officer at Silicon Valley Clean Water, (650) 832-6224, 1400 Radio Road, Redwood City, CA, 94065.

BASIC FINANCIAL STATEMENTS

Silicon Valley Clean Water
Statement of Net Position
June 30, 2019
(With Comparative Totals as of June 30, 2018)

Assets	2019	2018
Current Assets:		
Cash and investments	$ 71,812,930	$ 125,837,918
Cash restricted for debt service	7,823,426	7,693,222
Accounts receivable	1,937,298	712,420
Interest receivable	517,075	513,042
Employee notes receivable	19,850	16,523
Inventory	2,095,290	1,854,529
Prepaid expenses	423,325	98,445
Total Current Assets	84,629,194	136,726,099
Noncurrent Assets:		
Property held for resale	3,289,065	2,552,962
Cash and investments	-	24,857,025
Capital assets:		
Depreciable capital assets - net	142,851,406	150,304,507
Non depreciable capital assets:		
Land	1,282,081	1,282,081
Construction in progress:		
Stage 2	2,934,618	2,934,618
General	244,348,014	128,605,638
Total capital assets - net	391,416,119	283,126,844
Total Noncurrent Assets	394,705,184	310,536,831
Total Assets	$ 479,334,378	$ 447,262,930
Deferred Outflows of Resources		
Pension related	$ 4,421,241	$ 5,046,304
OPEB related	841,064	763,957
Deferred Loss on Defeasance	348,829	425,798
Total Deferred Outflows of Resources	$ 5,611,134	$ 6,236,059
Liabilities		
Current Liabilities:		
Accounts payable	$ 17,856,836	$ 5,581,300
Accrued payroll and employee benefits	882,309	892,491
Accrued interest payable	6,391,797	6,227,056
Unearned revenue	271,903	287,447
Noncurrent liabilities due within one year	9,302,782	8,292,753
Total Current Liabilities	34,705,627	21,281,047
Noncurrent liabilities due in more than one year	344,231,578	351,308,306
Total Liabilities	$ 378,937,205	$ 372,589,353
Deferred inflows of Resources		
Pension related	$ 1,207,125	$ 1,243,778
OPEB related	39,733	-
Total Deferred Inflows of Resources	$ 1,246,858	$ 1,243,778
Net Position		
Net Investment in Capital Assets	$ 87,049,556	$ 61,254,055
Restricted for:		
Debt service	7,823,426	7,693,222
Unrestricted	9,888,467	10,718,581
Total Net Position	$ 104,761,449	$ 79,665,858

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

Silicon Valley Clean Water
Statement of Activities and Changes in Net Position
For the Fiscal Year Ended June 30, 2019
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)

	2019	2018
Operating Revenues:		
Member contributions for services	$ 24,439,039	$ 23,412,008
Member contributions for cash reserves	5,232,796	3,676,896
Member contributions for debt service	38,700,687	17,438,142
Sources control charges	51,206	73,859
Miscellaneous revenues	404,146	491,017
Total operating revenues	68,827,874	45,091,922
Operating Expenses:		
Operations	8,669,851	8,286,120
Maintenance	6,424,080	6,276,632
Laboratory	1,723,215	1,610,107
Environmental services	1,147,991	1,023,191
Engineering	1,320,911	830,765
Information systems	1,585,728	1,560,575
Safety	421,319	366,455
Administration	4,922,808	4,215,423
Depreciation	8,986,961	8,836,703
Total operating expenses	35,202,864	33,005,971
Operating Income (Loss)	33,625,010	12,085,951
Nonoperating Revenues (Expenses):		
Grants	273,678	262,635
Other revenue (expense)	793,208	-
Interest by fund:		
Operations fund	40,104	40,696
Stage 2 capacity fund	191,304	135,533
Capital improvement reserve fund	317,406	231,573
Capital improvement fund	-	2,405
Self insurance fund	-	57
Operating reserve fund	59,403	50,445
Recycled water fund	-	50
Capital improvement fund	2,597,917	242,910
Net increase (decrease) in fair value of investments	524,261	(236,196)
Interest expense	(14,508,313)	(11,941,492)
Premium amortization	941,868	941,868
Gain (loss) on disposal of fixed assets	(12,576)	(142,592)
Total nonoperating revenues (expenses)	(8,781,740)	(10,412,108)
Change in Net Position	24,843,270	1,673,843
Beginning Net Position	79,665,858	81,678,628
Prior Period Adjustments	252,321	(3,686,613)
Ending Net Position	$ 104,761,449	$ 79,665,858

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

Silicon Valley Clean Water
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019
(With Comparative Totals for the Fiscal Year Ended June 30, 2018)

	2019	2018
Cash Flows from Operating Activities:		
Cash received from member agencies	$ 67,510,155	$ 44,331,023
Cash paid to suppliers for goods and services and employees for services	(14,021,279)	(23,937,654)
Other cash received (paid)	455,352	491,017
Net Cash Provided (Used) by Operating Activities	53,944,228	20,884,386
Cash Flows from Capital and Related Financing Activities:		
Cash received from member agencies other than for services	793,208	427,442
Cash received from grants	273,678	262,635
Proceeds from capital debt	-	177,319,484
Interest paid on capital debt	(14,508,313)	(9,799,025)
Principal paid on capital debt	(5,124,831)	(28,342,054)
Cash received on the sale of capital assets	83,101	41,996
Purchases and construction of capital assets	(118,108,016)	(38,525,900)
Net Cash Provided (Used) by Capital and Related Financing Activities	(136,591,173)	101,384,578
Cash Flows from Investing Activities:		
Noncash equivalent investments	-	(126,001,716)
Investment income	3,895,136	469,038
Net Cash Provided (Used) by Investing Activities	3,895,136	(125,532,678)
Net Increase (Decrease) in Cash and Cash Equivalents	(78,751,809)	(3,263,714)
Cash and Cash Equivalents Beginning	158,388,165	35,650,163
Cash and Cash Equivalents Ending	$ 79,636,356	$ 32,386,449
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:		
Operating Income (Loss)	$ 33,625,010	$ 12,085,951
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	8,986,961	8,836,703
OPEB expense adjustment - GASB 75	-	(3,686,613)
Net change in:		
Accounts receivable	(1,228,911)	(265,267)
Employee notes receivable	(3,327)	5,218
Inventory	(240,761)	(26,337)
Prepaid expenses	(324,880)	100,539
Net OPEB asset	-	2,641,436
Deferred outflows of resources for benefits	624,925	(2,201,005)
Accounts payable	12,527,857	68,083
Accrued payroll and employee benefits	(10,182)	210,391
Unearned revenue	(15,544)	(9,833)
Deferred inflows of resources for benefits	3,080	(109,126)
Net pension liability	-	2,225,236
Net OPEB liability	-	1,000,631
Accrued compensated absences	-	8,379
Net Cash Provided (Used) by Operating Activities	$ 53,944,228	$ 20,884,386
Reconciliation of Cash and Cash Equivalents:		
Cash and investments	$ 79,636,356	$ 158,388,165
Less: investments with original maturities in excess of three months	-	(126,001,716)
Cash and Cash Equivalents	$ 79,636,356	$ 32,386,449

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

NOTE 1 - NATURE OF ORGANIZATION

Silicon Valley Clean Water (SVCW, or "the Authority"), formerly South Bayside System Authority, was founded in 1975 as the successor to the Strategic Consolidation Sewerage Plan. SVCW took title to all property of the Strategic Consolidation Sewerage Plan. SVCW maintains and operates sanitary sewerage pumping, transmission and outfall facilities constructed by the Strategic Consolidation Sewerage Plan. In addition, SVCW has constructed and is operating sewerage treatment plant facilities. The members of SVCW are the Cities of Belmont, Redwood City, San Carlos, and the West Bay Sanitary District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

All activities of SVCW are accounted for within enterprise funds. SVCW's financial statements include a Statement of Net Position, a Statement of Activities and Changes in Net Position and a Statement of Cash Flows.

The financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of SVCW's assets (including capital assets, as well as infrastructure assets), deferred outflows of resources, liabilities, deferred inflows of resources, and long-term liabilities are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Deferred outflows of resources is a consumption of net assets by SVCW that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflows of resources is an acquisition of net assets by SVCW 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.

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

Statement of Net Position

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

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

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

- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. SVCW first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues in the enterprise funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Budgets and Budgetary Accounting

SVCW adopted a one year budget which provides for the general operations of SVCW. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for all capital projects.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

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

Investments

SVCW participates in various investments, including an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

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

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, services performed for other agencies, and from the state of California. All receivables are current and reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was zero as of June 30, 2019.

Inventories

Inventories are valued using the average cost method. Inventories are recorded as expenses when consumed rather than when purchased.

Capital Assets

Property, plant and equipment purchased after June 30, 1992 are stated at cost. Prior acquisitions are stated at their appraised value as of June 30, 1992. Property, plant and equipment contributed to SVCW are stated at estimated fair value at the time of contribution. SVCW policy has set the capitalization threshold for reporting capital assets at $20,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets generally as outlined by the State Controller's Report on Fixed Assets. The purpose of depreciation is to spread the cost of plant and equipment equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of plant and equipment cost.

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

Buildings and Structures	50-70
Pipelines	35
Pump Stations	7-25
Machinery and Equipment	5-10

Compensated Absences

SVCW has a policy whereby an employee can accumulate unused vacation. Compensated absences are recorded as a liability when accrued. Accumulated vacation is computed using current employee accumulated vacation hours at current pay rates. SVCW does not offer payment for sick leave at termination or retirement.

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

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of SVCW's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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.

New Accounting Pronouncements

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. This statement had no impact on the Authority's financial statements for the fiscal year 2019.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The Authority has implemented this GASB in the fiscal year 2019. See footnote disclosure in Note 6.

Upcoming New Accounting Pronouncements

GASB Statement No. 84, Fiduciary Activities

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 Authority doesn't believe this statement will have a significant impact on the Authority's financial statements.

GASB issued Statement No. 87, Leases

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the fiscal year ending June 30, 2021. The Authority does not believe this statement will have a significant impact on the Authority's financial statements.

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

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The Authority does not believe this statement will have a significant impact on the Authority's financial statements.

GASB Statement No. 90, Majority Equity Interests

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This statement is effective for reporting periods beginning after December 15, 2018. The Authority does not believe this statement will have a significant impact on the Authority's financial statements.

GASB Statement No. 91, Conduit Debt Obligation

GASB Statement No. 91 – In May 2019, GASB Issued Statement No. 91, Conduit Debt Obligation. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement also addresses arrangements - often characterized as leases - that are associated with conduit debt obligations. This Statement is effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The Authority has not yet determined its effect on the financial statements.

NOTE 3 - CASH AND INVESTMENTS

Credit Risk

SVCW's cash and investments consisted of the following as of June 30, 2019 and 2018:

Cash and Investments	June 30, 2019	June 30, 2018	Investment Rating	Input Level
Cash:				
Demand deposits	$ 264,182	$ (243,580)	n/a	n/a
Cash on hand	1,000	1,000	n/a	n/a
Total Cash	265,182	(242,580)		
Investments:				
US Treasuries	7,193,462	81,115,604	Aaa	1
US Government Agencies	24,351,957	28,600,304	AA+	1
Commercial paper/Corp bonds	1,493,658	12,716,610	BBB-/AA+	1
Municipal bonds/notes	399,192	2,328,770	AA-/AA+	1
Money Market/Certificates of Deposit	35,394,772	32,801,075	n/a	2
Local Agency Investment Fund	10,538,133	1,068,382	Not rated	n/a
Total Investments	79,371,174	158,630,745		
Total Cash and Investments	$ 79,636,356	$ 158,388,165		

Interest Rate Risk

The following is a summary of the Authority's investments by maturity as of June 30, 2019:

Maturity	June 30, 2019	June 30, 2018
0-1 years	$ 61,814,839	$ 128,912,881
1-2 years	7,961,197	12,801,244
2-3 years	7,122,689	6,529,172
2-5 years	2,472,449	10,387,448
Total Investments	$ 79,371,174	$ 158,630,745

Cash Deposits

Interest bearing bank balances are insured up to $250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). SVCW's cash in bank did not exceed the insured limit as of June 30, 2019. All of SVCW's deposits with financial institutions were held in collateralized accounts.

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.

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.

Restricted Cash

SVCW's restricted cash consisted of $7,823,426 in cash and investments as of June 30, 2019 held by trustees or fiscal agent, all of which was pledged for the payment or security of bonds.

Local Agency Investment Fund

LAIF allows local agencies such as SVCW to participate in a Pooled Money Investment Account managed by the State Treasurer's Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. The 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, 2019, was approximately $105.7 billion. Of that amount, 99.26% is invested in non-derivative financial products and 0.74% in structured notes and asset-backed securities.

Investment Policy

SVCW's investment guidelines as defined by its written investment policy were approved by the Commission, who also establishes its implementation and direction. Monthly, the Board ratifies the investments that have been made. SVCW's investment policy follows the California Government Code which authorizes SVCW to invest in the following:

Authorized Investment Type	Maximum Maturity	SVCW Maximum Investment in Single Issuer
U.S. Treasury Obligations on mortgage-backed/mortgage backed	11 years/10 years*	100%
U.S. Federal Agency and Government-Sponsored Enterprise Obligations non mortgage-backed/mortgage backed	11 years/10 years*	100%
California State and Local Agency Obligations	11 years*	5%
Other State Obligations	11 years*	5%
Medium-Term Notes (Includes corporate and depository institution debt securities)	5 years	5%
Bank (non-time) Depositis	5 years	100%
California Local Agency Investment Fund (LAIF)	N/A	$65 million
Money Market Funds	N/A	20%
Shares of Joint Powers Authority	N/A	100%

**U.S. Treasuries, U.S. Agencies, and State/Local Agency obligations measure maximum maturity as average remaining maturity at time of purchase.*

Risk Disclosures

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

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments.

- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.

- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, SVCW's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of SVCW's investments were subject to custodial credit risk.

- *Concentration of Credit Risk* - See the chart above for SVCW's limitations on the amount that can be invested in any one issuer. As of June 30, 2019, 13% of SVCW's cash was invested in LAIF, 31% in agencies, 2% in commercial paper and corporate bonds, 1% in municipal bonds and notes, 44% in money market accounts, and 9% in U.S. treasuries.

NOTE 4 - EMPLOYEE NOTES RECEIVABLE

All full-time and part-time SVCW employees are eligible to obtain an interest-free loan to purchase a computer or certain tools. All requests for loans must be approved by the Department Manager and Human Resources Director. Repayment of these loans is handled through payroll deductions which are amortized over a two year period. Employees must pay off any outstanding balance of their loans upon ending employment with SVCW. As of June 30, 2019 and 2018, outstanding balances for notes receivable were $19,850 and $16,523, respectively.

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

SVCW's capital assets consisted of the following as of June 30, 2019:

Capital Assets	Balance July 01, 2018	Additions	Deletions	Adjustments/ Transfer	Balance June 30, 2019
Non-depreciable:					
Land	$ 1,282,081	$ -	$ -	$ -	$ 1,282,081
Construction in Progress					
Stage 2	2,934,618	-	-	-	2,934,618
General	128,605,638	118,110,915	-	(2,368,539)	244,348,014
Total Non-Depreciable	132,822,337	118,110,915	-	(2,368,539)	248,564,713
Depreciable:					
Buildings and structures	84,599,149	-	-	163,804	84,762,953
Pipelines	55,151,004	-	-	307,200	55,458,204
Pump station	7,175,591	-	-	298,362	7,473,953
Machinery and equipment	92,427,359	-	(113,260)	860,170	93,174,269
Total Depreciable	239,353,103	-	(113,260)	1,629,536	240,869,379
Less Accumulated Depreciation for:					
Buildings and structures	(38,278,144)	(2,601,768)	-	-	(40,879,912)
Pipelines	(9,872,100)	(1,711,732)	-	-	(11,583,832)
Pump station	(5,663,883)	(167,771)	-	-	(5,831,654)
Machinery and equipment	(35,234,469)	(4,545,167)	16,607	40,454	(39,722,575)
Total Accumulated Depreciation	(89,048,596)	(9,026,438)	16,607	40,454	(98,017,973)
Total Depreciable PPE - Net	150,304,507	(9,026,438)	(96,653)	1,669,990	142,851,406
Total PPE - Net	$ 283,126,844	$ 109,084,477	$ (96,653)	$ (698,549)	$ 391,416,119

Depreciation expense for the year ended June 30, 2019 and 2018 was $9,026,438 and $8,836,703, respectively.

NOTE 6 - NONCURRENT LIABILITIES

SVCW's noncurrent liabilities consisted of the following as of June 30, 2019:

Debt Note Disclosure:

Description	Balance July 01, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
Wastewater Revenue Bonds	$ 268,295,000	$ -	$ 5,620,000	$ 262,675,000	$ 5,540,000
Unamortized Premium	25,653,176	-	941,868	24,711,308	941,868
Note Payable (Direct Borrowing)	50,013,131	3,268,635	1,850,520	51,431,246	1,887,871
Line of Credit	55,000	-	55,000	-	-
Net OPEB Liability	1,000,631	-	724,060	276,571	-
Net Pension Obligation	13,762,187	-	254,995	13,507,192	-
Compensated Absences	821,934	111,109	-	933,043	933,043
Total Noncurrent Liabilities	$ 359,601,059	$ 3,379,744	$ 9,446,443	$ 353,534,360	$ 9,302,782

Wastewater Revenue Bonds

SVCW's Wastewater revenue bonds consisted of the following as of June 30, 2019:

Wastewater Revenue Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2018	Redeemed	Bonds Outstanding June 30, 2019
2009 Bond	2009	2039	1.74-8.1%	$ 55,855,000	$ 2,555,000	$ 1,250,000	$ 1,305,000
2014 Bond	2014	2044	3-5%	60,000,000	56,135,000	1,115,000	55,020,000
2015 Bond	2015	2045	2-5%	70,200,000	68,650,000	795,000	67,855,000
2018 Bond	2018	2049	3.125-5%	140,955,000	140,955,000	2,460,000	138,495,000
Total Wastewater Revenue Bonds				$ 327,010,000	$ 268,295,000	$ 5,620,000	$ 262,675,000

2009 Wastewater Revenue Bonds

In July 2009, SVCW issued $55,855,000 of Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system; fund the debt service reserve fund, and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

2014 Wastewater Revenue Bonds

In March 2014, SVCW issued $60,000,000 of Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

2015 Wastewater Revenue Bonds

Wastewater Revenue Bonds in the amount of $70,200,000 were executed on November 24, 2015. The funds were used to refund the Authority's current outstanding Wastewater Revenue Bonds captioned 2008 Wastewater Revenue Bonds and 2009 Build America Bonds, and to finance certain improvements to the Authority's wastewater treatment system. In conjunction with the issuance of the 2015 Wastewater Revenue Bonds and in accordance with the Authority's refunding plan, $53,246,823 was deposited with an escrow agent to provide for payment when due of all principal and interest with respect to the 2008 and 2009 refunded Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $703,660. The difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized over the useful life of the refunded bonds using the straight-line method. For financial reporting purposes, the refunded portion of the debt is considered defeased and therefore removed as a liability from these financial statements. As of June 30, 2019 there was $44,765,000 of defeased 2009 bonds outstanding, both to be paid from escrow funds. Interest is payable semi-annually on February 1st and August 1st of each year while principal payments are made on August 1st of each year commencing 2016, with interest rates ranging from 2% to 5%. These wastewater revenue bonds are secured by a pledge of Member revenues.

2018 Wastewater Revenue Bonds

In February 2018, SVCW issued $140,955,000 in Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

The 2009, 2014, 2015 and 2018 Wastewater Revenue Bonds are general obligations of SVCW, payable solely from pledges of wastewater revenues from participating SVCW member agencies. The bond covenants contain events of default that require the revenue of SVCW to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: default on debt service payments; the failure of SVCW to observe or perform the conditions, covenants, or agreement terms of the debt; bankruptcy filing by SVCW; or if any court or competent jurisdiction shall assume custody or control of SVCW. No such events occurred during the fiscal year ending June 30, 2019.

Wastewater Revenue Bonds Debt Service

The debt service requirements for the bonds as of June 30, 2019 were as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	$ 5,540,000	$ 13,456,840	$ 18,996,840
2021	5,610,000	11,405,619	17,015,619
2022	5,890,000	11,119,619	17,009,619
2023	6,185,000	10,819,369	17,004,369
2024	6,500,000	10,503,869	17,003,869
2025-2029	37,720,000	47,203,969	84,923,969
2030-2034	45,285,000	36,996,894	82,281,894
2035-2039	55,420,000	26,014,384	81,434,384
2040-2044	55,660,000	13,923,237	69,583,237
2045-2049	38,865,000	3,537,363	42,402,363
Total	$ 262,675,000	$ 184,981,163	$ 447,656,163

Wastewater Revenue Bonds - Build America Bonds Refundable Credit

SVCW elected to treat the 2009 Wastewater Revenue Bonds as Build America Bonds under section 54AA of the Tax Code, which entitles it to a refundable credit from the United States Treasury equal to 35% of the interest payable on the bonds. Since March 2013, the Internal Revenue Service has reduced the refundable credit amounts by imposing sequestration rates. The sequestration rate from October 1, 2018 to September 30, 2019, the sequestration rate was 6.2%. The credit is reported as member contributions. The 2019 credit received by SVCW totaled $1,198,925.

Notes Payable (Direct Borrowing)

SVCW has financed multiple projects by entering into three separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). Combined, these notes payable totaled $51,431,246 as of June 30, 2019. The project funds, together with all accrued interest, are repaid in annual installments commencing one year after the completion of construction.

In August 2011, SVCW secured SWRCB funding for the construction of an administration and plant control building. The SWRCB reimbursed SVCW for project-related expenditures as incurred, and the outstanding liability was $8,620,700 as of June 30, 2019. This amount is scheduled to be fully repaid by June 2033.

In March 2012, SVCW entered a similar agreement with the SWRCB for up to $35,385,953 for certain improvements to the wastewater treatment plant. The SWRCB reimbursed SVCW for project-related expenditures as incurred, and the outstanding liability was $28,810,546 as of June 30, 2019. This amount will be repaid by October 2036.

In February 2016, SVCW entered a similar agreement with the SWRCB for up to $14,000,000 to plan and design certain improvements to the conveyance system. As of June 30, 2019, SVCW had incurred $14,000,000 in expenditures. This planning is scheduled to be completed in fiscal year 2018-19 and the total incurred expenditures will either be repaid by September 2028 or combined into a subsequent construction loan. The SWRCB has not established the debt service payments for the entirety of the expenditures incurred by SVCW. The following summarizes the scheduled future debt service requirements for the SWRCB loans as of June 30, 2019:

Notes Payable

Fiscal Year	Principal	Interest to Maturity	Total
2020	$ 1,887,870	$ 742,728	$ 2,630,599
2021	1,925,999	704,599	$ 2,630,599
2022	1,964,922	665,677	$ 2,630,599
2023	2,004,656	625,943	$ 2,630,599
2024	2,045,218	585,380	$ 2,630,599
2025-2029	10,864,810	2,288,183	$ 13,152,993
2030-2034	11,271,439	1,139,052	$ 12,410,491
2035-2039	5,466,333	197,958	$ 5,664,291
Total	$ 37,431,246	$ 6,949,521	$ 44,380,767

Line of Credit

SVCW has a $35,000,000 line of credit with Wells Fargo Bank. Advances on the line of credit provide for an interest rate based on either a fixed per annum rate of interest equal to the LIBOR rate plus the Applicable LIBOR Rate Margin, or a variable per annum rate of interest equal to the Base Rate plus the Applicable Base Rate Margin. SVCW had zero outstanding on the line of credit at June 30, 2019.

NOTE 7 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Due-to/from

Interfund receivables and payables as of June 30, 2019 were as follows:

Fund Description	Due From	Due To
Operations	$ 953,045	$ 4,516,700
Capital Improvement Program	4,658,944	-
Recycled Water	-	11,126
Self Insurance	186,780	-
Construction Stage 2	886,168	-
Capital Improvements	6,308,747	-
Capital Improvement Program Reserve	-	11,700,932
Operating Reserve	3,235,074	-
Totals	$ 16,228,758	$ 16,228,758

Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended and transfers of capital assets upon completion of construction. Interfund transfers for the June 30, 2019 fiscal year were as follows:

Fund Description	Transfers In	Transfers Out
Operations	$ 1,629,537	$ -
Capital Improvement Program	-	740,905
Capital Improvements	-	888,632
Totals	$ 1,629,537	$ 1,629,537

NOTE 8 - DEFINED BENEFIT PENSION PLAN

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 Plans (the Plans); cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Agency resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 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 Plans 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	Tier 2	Tier 3
Hire date	Prior to 7/1/11	7/1/11 to 12/31/12	On/After 1/1/13
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.42%	2.000%	2.000%
Required employee contribution rates	7.000%	7.000%	6.250%
Required employer contribution rates	17.800%	7.821%	7.183%

Employees Covered - At June 30, 2019, the following employees were covered by the benefit terms for the Plans:

	Miscellaneous
Active	82
Transferred	22
Separated	24
Retired	76
Total	204

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 Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rates are the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2019, SVCW contributed $1,612,511 into the Plans.

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

As of June 30, 2019, the Agency reported net pension liabilities for its proportionate shares of the net pension liability was $13,507,192.

The Agency's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plan are measured as of June 30, 2018, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 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 plans relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability for the Plans as of June 30, 2018 and 2019 was as follows:

	Miscellaneous	**Safety**	**Total**
Proportion - June 30, 2018	0.34911%	0.00000%	0.13877%
Proportion - June 30, 2019	0.37832%	0.00000%	0.14170%
Change - Increase/(Decrease)	0.02921%	0.00000%	0.00293%

For the year ended June 30, 2019, the Agency recognized pension expense of $1,945,925. At June 30, 2019, 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**
Changes of Assumptions	$ 1,539,860	$ (377,390)
Differences between Expected and Actual Experience	518,247	(176,356)
Differences between Projected and Actual Investment Earnings	66,776	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	(653,379)
Change in Employer's Proportion	683,847	
Pension Contributions Made Subsequent to Measurement Date	1,612,511	-
Total	$ 4,421,241	$ (1,207,125)

The Agency reported $1,612,511 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, 2020.

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 June 30:	Annual Amortization
2020	$ 1,319,385
2021	772,524
2022	(368,815)
2023	(121,489)
Total	$ 1,601,605

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.65%
Payroll Growth	2.75%
Projected Salary Increase	3.2%-12.2% (2)
Investment Rate of Return	7.5
Mortality	Derived using CalPERS Membership Data for all Funds (4)
Post Retirement Benefit Increase	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.50% thereafter

(1) Actuarial assumptions are the same for all benefit tiers (Classic Tier 1, Classic Tier II, and PEPRA)
(2) Depending on age, service and type of employment
(3) Net of pension plan investment expenses, including inflation
(4) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the CalPERS December 2017 experience study report available on CalPERS website.

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

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

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 (a)	Current Target Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.90%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

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

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 Plans, calculated using the discount rate for the Plans, 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	6.15%
Net Pension Liability	$ 22,151,373
Current	7.15%
Net Pension Liability	$ 13,507,192
1% Increase	8.15%
Net Pension Liability	$ 6,371,562

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 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

SVCW's Retiree Healthcare Plan (the Plan) is a single-employer defined benefit healthcare plan administered by SVCW. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between SVCW, its management employees, and unions representing SVCW employees.

Benefits

Following is a description of the current retiree benefit plan. The following table describes benefits available to those hired prior to January 30, 2011. Employees hired on or after this date are entitled only to statutory minimum benefits under sections of the Government Code collectively known as PEMHCA (Public Employees' Medical and Hospital Care Act).

	All Non-Represented Employees	Operating Engineers
Benefits Provided:	Medical Only	Medical Only
Duration of Benefits:	Lifetime	Lifetime
Required Services:	Retirement under CalPERS	Retirement under CalPERS
Minimum Age:	Retirement under CalPERS	Retirement under CalPERS
Dependent Coverage:	Yes	Yes
Contribution Percentage:	100% to cap	100% to cap
Cap:	Bay Area Kaiser Rate	Bay Area Kaiser Rate

Employees Covered by Benefit Terms

At June 30, 2018 (the valuation date), the benefit terms covered the following employees:

Active employees	82
Inactive employees	37
Total employees	119

Contributions

The Authority makes contributions based on an actuarially determined rate and are approved by the authority of the Authority's Board. Total contributions during the year were $841,064. Total contributions included in the measurement period were $763,957. The actuarially determined contribution for the measurement period was $74,614. The Authority's contributions were 6.86% of payroll during the fiscal year ended June 30, 2019. Employees are not required to contribute to the plan.

Actuarial Assumptions

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

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2018
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Salary Increases	2.75%
Healthcare Trend Rate	4.00%
Investment Rate of Return	7.00%
Mortality	2014 CalPERS Active Mortality for Misc.
Retirement	Rx PA Misc 2% @ 55 Rx PA Misc 2% @ 60 Rx PA Misc 2% @ 62 min age 52

Discount Rate

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

Long-Term Expected Rate of Return

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

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

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

Net OPEB Liability

The Authority's net OPEB liability was measured as of June 30, 2018 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 (valuation date) for the fiscal year ended June 30, 2019 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2019:

Fiscal Year Ended June 30, 2019 (Measurement Date June 30, 2018)	**Total OPEB Liability**	**Plan Fiduciary Net Position**	**Net OPEB Liability (Asset)**
Balance at June 30, 2018	$ 6,910,635	$ 5,910,004	$ 1,000,631
Service cost	37,428	-	37,428
Interest in Total OPEB Liability	473,085	-	473,085
Employer contributions	-	763,957	(763,957)
Expected investment income	-	477,679	(477,679)
Administrative expenses	-	(11,080)	11,080
Benefit payments	(341,991)	(341,991)	-
Other	-	4,017	(4,017)
Net changes	168,522	892,582	(724,060)
Balance at June 30, 2018	$ 7,079,157	$ 6,802,586	$ 276,571

Covered Employee Payroll at Measurement Date	$ 11,176,980
Total OPEB Liability as a % of covered Employee payroll	63.34%
Plan Fid. Net Position as a % of Total OPEB Liability	96.09%
Service cost as a % of covered Employee payroll	0.33%
Net OPEB Liability as a % of covered payroll	2.47%

Deferred Inflows and Outflows of Resources

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ -	$ -
Difference between actual and expected earnings	-	(39,733)
Change in assumptions	-	-
OPEB contribution subsequent to measurement date	841,064	-
Totals	$ 841,064	$ (39,733)

The total $841,064 reported as deferred outflows of resources related to OPEB was from Authority contributions subsequent to the measurement date and before the end of the fiscal year and will be included as a reduction of the net OPEB liability in the year ended June 30, 2020.

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2019:

Service cost	$ 37,428
Interest in TOL	473,085
Expected investment income	(428,012)
Difference between actual and expected earnings	(9,933)
Other (PPA of FNP, Per Actuary)	(4,017)
Administrative expenses	11,080
OPEB Expense	**$ 79,631**

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2019:

Net OPEB liability ending	$ 276,571
Net OPEB liability begining	(1,000,631)
Change in net OPEB liability	(724,060)
Employer contributions and implicit subsidy	763,958
OPEB Expense	**$ 79,631**

Sensitivity to Changes in the Discount Rate

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

	Discount Rate		
	6.0% (1% Decrease)	**7.0% (Current Rate)**	**8.0% (1% Increase)**
Net OPEB Liability (Asset)	$ 1,208,121	$ 276,571	$ (478,547)

Sensitivity to Changes in the Healthcare Cost Trend Rates

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

	Trend Rate		
	3.0% (1% Decrease)	**4.0% (Current Rate)**	**5.0% (1% Increase)**
Net OPEB Liability (Asset)	$ (566,411)	$ 278,537	$ 1,305,792

NOTE 10 - RISK MANAGEMENT

SVCW is a member of the California Sanitation Risk Management Authority (CSRMA) which covers the general liability claims up to $15,500,000 and provides coverage of Employment Practices Liability (EPL) up to $15,500,000. Excess public entity general liability insurance of $10,000,000 is obtained by CSRMA commercially, resulting in a total coverage of $25,500,000. SVCW has a self-insured retention of $10,000 per general liability claim and $25,000 per EPL claim. Once SVCW's self-insured retention is met, CSRMA becomes responsible for payment of all claims up to the limit.

SVCW also has workers' compensation insurance with CSRMA which covers workers' compensation claims up to $750,000. Excess public entity workers' compensation and third party liability insurance are obtained by CSRMA commercially up to statutory limit and $25,500,000 respectively. SVCW has a self-insured retention of $750,000 per claim.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after retrospective rating. CSRMA's audited financial statements may be obtained by writing them at c/o Alliant Insurance Services, 100 Pine Street, 11th Floor, San Francisco, CA 94111.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

SVCW is at risk to be a defendant in various lawsuits which arise in the normal course of business. The final disposition of these legal actions ad claims was not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of the SVCW.

SVCW had outstanding construction contract commitments on capital projects totaling $251,177,566 at June 30, 2019.

SVCW has a month to month operating lease with San Mateo County for use of real property to facilitate construction activities for the 63" Forcemain Reliability Improvement Project. The monthly rent is $97,300 per month with five option years totaling $5,838,000. SVCW also has a lease with West Bay Sanitary District for $300,000 per year subject to annual CPI increases, for a Flow Equalization facility. Rent expense was $1,505,233 during the year for two lease agreements.

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REQUIRED SUPPLEMENTARY INFORMATION

Silicon Valley Clean Water
Cost Sharing Multiple Employers Plan
Schedule of Contributions -CalPERS
Last 10 Fiscal Years

Fiscal Year Ended	2019	2018	2017	2016	2015
Contractually Required Contributions	$ 1,612,511	$ 1,470,709	$ 1,251,217	$ 1,130,159	$ 1,033,248
Contributions in Relation to Contractually Required Contributions	1,612,511	1,470,709	1,251,217	1,130,159	1,033,248
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	**$ 11,073,314**	**$ 11,882,052**	**$ 10,137,714**	**$ 9,454,067**	**$ 9,115,492**
Contributions as a Percentage of Covered Payroll	**14.56%**	**12.38%**	**12.34%**	**11.95%**	**11.34%**

Notes to Schedule:

Valuation Date: June 30, 2017

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
3.8 Years Remaining Amortization Period
Inflation Assumed at 2.50%
Investment Rate of Returns set at 7.15%
CalPERS mortality table using 15 years of membership data for all funds

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

Silicon Valley Clean Water
Cost Sharing Multiple Employers Plan
Schedule of Proportionate Share of Net Pension Liability
Last 10 Fiscal Years

Miscellaneous Plan Fiscal Year Ended	**2019**	**2018**	**2017**	**2016**	**2015**
Proportion of Net Pension Liability	0.35840%	0.34911%	0.33211%	0.30498%	0.32474%
Proportionate Share of Net Pension Liability	$ 13,507,192	$ 13,762,187	$ 11,536,951	$ 8,367,040	$ 8,025,843
Covered Payroll	$ 11,882,052	$ 10,137,714	$ 9,454,067	$ 9,115,492	$ 8,842,027
Proportionate Share of NPL as a % of Covered Payroll	**113.68%**	**135.75%**	**122.03%**	**91.79%**	**90.77%**
Plan's Fiduciary Net Position as a % of the TPL	**76.53%**	**77.31%**	**78.40%**	**83.30%**	**83.03%**

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

Silicon Valley Clean Water
Single Employer Plan
Schedule of OPEB Contributions
For the Fiscal Year Ended June 30, 2019

	Fiscal Year Ended June 30, 2018	2019
Actuarially determined contribution (ADC)	$ 135,456	$ 74,614
Less: actual contribution in relation to ADC	(763,957)	(841,064)
Contribution deficiency (excess)	$ (628,501)	$ (766,450)
Covered payroll for the fiscal year	$ 11,176,980	$ 12,259,105
Contributions as a percentage of covered payroll	6.84%	6.86%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2018
Actuarial Cost Method:	Entry-Age Normal Cost
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75%
Salary Increases	2.75%
Healthcare Trend Rate	4.00%
Investment Rate of Return	7.00%
Mortality	2014 CalPERS Active
Retirement	Rx PA Misc 2% @ 55 Rx PA Misc 2% @ 60 Rx PA Misc 2% @ 62

Other Notes

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

Silicon Valley Clean Water
Single Employer Plan
Schedule of Net OPEB Liability
For the Fiscal Year Ended June 30, 2019

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2019
Total OPEB liability		
Service cost	$ 36,426	$ 37,428
Interest	461,630	473,085
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	-	-
Benefit payments	(328,838)	(341,991)
Implicit subsidy fulfilled	-	-
Net change in Total OPEB Liability	169,218	168,522
Total OPEB Liability - beginning	6,741,417	6,910,635
Total OPEB Liability - ending	$ 6,910,635	$ 7,079,157
Plan fiduciary net position		
Employer contributions	$ 748,838	$ 763,957
Employer implicit subsidy	-	-
Employee contributions	-	-
Net investment income	547,183	477,679
Difference between estimated and actual earnings	-	-
Benefit payments	(328,838)	(341,991)
Implicit subsidy fulfilled	-	-
Other	-	4,017
Administrative expense	(4,578)	(11,080)
Net change in plan fiduciary net position	962,605	892,582
Plan fiduciary net position - beginning	4,947,399	5,910,004
Plan fiduciary net position - ending	$ 5,910,004	$ 6,802,586
Net OPEB liability (asset)	$ 1,000,631	$ 276,571
Plan fiduciary net position as a percentage of the total OPEB liability	85.52%	96%
Covered employee payroll for the plan	$ 10,877,839	$ 11,176,980
Net OPEB Liability as a percentage of covered Employee payroll	9.20%	2.47%
Total OPEB Liability as a percentage of covered Employee payroll	63.53%	63.34%

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

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SUPPLEMENTARY INFORMATION

Silicon Valley Clean Water
Combining Schedule of Net Position
Enterprise Funds
June 30, 2019

Assets	Operating Reserve	Capital Improvement Program Reserve	Capital Improvements	Construction Stage 2
Current Assets:				
Cash and investments	$ 3,614,865	$ 16,094,697	$ -	$ 12,023,851
Cash restricted for debt service	-	2,630,598	-	-
Accounts receivable	-	-	-	862,367
Interest receivable	-	-	-	-
Employee notes receivable	-	-	-	-
Due from other funds	3,235,074	-	6,308,747	886,168
Inventory	-	-	-	-
Prepaid expenses	-	-	-	-
Total Current Assets	6,849,939	18,725,295	6,308,747	13,772,386
Noncurrent Assets:				
Property held for resale	-	-	-	-
Capital assets:				
Depreciable capital assets - net	-	-	-	-
Non depreciable capital assets:				
Land	-	-	-	-
Construction in progress:				
Stage 2	-	-	-	2,934,618
General	-	-	2,863,071	-
Total capital assets - net	-	-	2,863,071	2,934,618
Total Noncurrent Assets	-	-	2,863,071	2,934,618
Total Assets	$ 6,849,939	$ 18,725,295	$ 9,171,818	$ 16,707,004
Deferred Outflows of Resources				
Pension adjustments	$ -	$ -	$ -	$ -
OPEB adjustments	-	-	-	-
Deferred Loss on Defeasance	-	-	-	-
Total Deferred Outflows of Resources	$ -	$ -	$ -	$ -
Liabilities				
Current Liabilities:				
Accounts payable	$ -	$ -	$ 84,902	$ -
Accrued payroll and employee benefits	-	-	-	-
Accrued interest payable	-	-	-	-
Due to other funds	-	11,700,932	-	-
Unearned revenue	414	7,875	13,264	-
Noncurrent liabilities due within one year	-	-	-	-
Total Current Liabilities	414	11,708,807	98,166	-
Noncurrent liabilities due in more than one year	-	-	-	-
Total Liabilities	$ 414	$ 11,708,807	$ 98,166	$ -
Deferred inflows of Resources				
Pension adjustments	$ -	$ -	$ -	$ -
OPEB adjustments	-	-	-	-
Total Deferred Inflows of Resources	$ -	$ -	$ -	$ -
Net Position				
Net Investment in Capital Assets	$ -	$ -	$ 2,863,071	$ 2,934,618
Restricted for:				
Debt service	-	2,630,598	-	-
Capital projects	-	-	-	-
Retiree health benefits	-	-	-	-
Unrestricted	6,849,525	4,385,890	6,210,581	13,772,386
Total Net Position	$ 6,849,525	$ 7,016,488	$ 9,073,652	$ 16,707,004

(Continued)

Silicon Valley Clean Water
Combining Schedule of Net Position
Enterprise Funds
June 30, 2019

Assets	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Current Assets:					
Cash and investments	$ -	$ -	$ 29,258,163	$ 10,821,354	$ 71,812,930
Cash restricted for debt service	-	-	5,192,828	-	7,823,426
Accounts receivable	-	61,375	610,000	403,556	1,937,298
Interest receivable	-	-	495,390	21,685	517,075
Employee notes receivable	-	-	-	19,850	19,850
Due from other funds	186,780	-	4,658,944	953,045	16,228,758
Inventory	-	-	-	2,095,290	2,095,290
Prepaid expenses	-	-	-	423,325	423,325
Total Current Assets	186,780	61,375	40,215,325	14,738,105	100,857,952
Noncurrent Assets:					
Property held for resale	-	-	3,289,065	-	3,289,065
Capital assets:					
Depreciable capital assets - net	-	-	-	142,851,406	142,851,406
Non depreciable capital assets:					
Land	-	-	-	1,282,081	1,282,081
Construction in progress:					
Stage 2	-	-	-	-	2,934,618
General	-	-	241,484,943	-	244,348,014
Total capital assets - net	-	-	241,484,943	144,133,487	391,416,119
Total Noncurrent Assets	-	-	244,774,008	144,133,487	394,705,184
Total Assets	$ 186,780	$ 61,375	$ 284,989,333	$ 158,871,592	$ 495,563,136
Deferred Outflows of Resources					
Pension adjustments	$ -	$ -	$ -	$ 4,421,241	$ 4,421,241
OPEB adjustments	-	-	-	841,064	841,064
Deferred Loss on Defeasance	-	-	348,829	-	348,829
Total Deferred Outflows of Resources	$ -	$ -	$ 348,829	$ 5,262,305	$ 5,611,134
Liabilities					
Current Liabilities:					
Accounts payable	$ -	$ 22,791	$ 16,987,571	$ 761,572	$ 17,856,836
Accrued payroll and employee benefits	-	20	-	882,289	882,309
Accrued interest payable	-	-	6,391,797	-	6,391,797
Due to other funds	-	11,126	-	4,516,700	16,228,758
Unearned revenue	-	-	-	250,350	271,903
Noncurrent liabilities due within one year	-	-	8,369,739	933,043	9,302,782
Total Current Liabilities	-	33,937	31,749,107	7,343,954	50,934,385
Noncurrent liabilities due in more than one year	-	-	330,447,815	13,783,763	344,231,578
Total Liabilities	$ -	$ 33,937	$ 362,196,922	$ 21,127,717	$ 395,165,963
Deferred inflows of Resources					
Pension adjustments	$ -	$ -	$ -	$ 1,207,125	$ 1,207,125
OPEB adjustments	-	-	-	39,733	39,733
Total Deferred Inflows of Resources	$ -	$ -	$ -	$ 1,246,858	$ 1,246,858
Net Position					
Net Investment in Capital Assets	$ -	$ -	$ (62,881,620)	$ 144,133,487	$ 87,049,556
Restricted for:					
Debt service	-	-	5,192,828	-	7,823,426
Capital projects	-	-	-	-	-
Retiree health benefits	-	-	-	-	-
Unrestricted	186,780	27,438	(19,169,968)	(2,374,165)	9,888,467
Total Net Position	$ 186,780	$ 27,438	$ (76,858,760)	$ 141,759,322	$ 104,761,449

(Concluded)

Silicon Valley Clean Water
Combining Schedule of Activities and Changes in Net Position
Enterprise Funds
For the Fiscal Year Ended June 30, 2019

	Operating Reserve	Capital Improvement Program Reserve	Capital Improvements	Construction Stage 2
Operating Revenues:				
Member contributions for services	$ -	$ -	$ -	$ -
Member contributions for cash reserves	-	1,000,008	1,485,504	2,747,284
Member contributions for debt service	-	-	-	-
Sources control charges	-	-	-	-
Miscellaneous revenues	-	-	6,816	-
Total operating revenues	-	1,000,008	1,492,320	2,747,284
Operating Expenses:				
Operations	-	-	-	-
Maintenance	-	-	22,601	-
Laboratory	-	-	-	-
Environmental services	-	-	-	-
Engineering	-	-	87	-
Information systems	-	-	-	-
Safety	-	-	-	-
Administration	6,005	30,139	-	18,705
Depreciation	-	-	-	-
Total operating expenses	6,005	30,139	22,688	18,705
Operating Income (Loss)	(6,005)	969,869	1,469,632	2,728,579
Nonoperating Revenues (Expenses):				
Grants	-	-	-	-
Other revenue (expense)	-	-	-	-
Interest Income:				
Operations fund	-	-	-	-
Stage 2 capacity fund	-	-	-	191,304
Capital improvement reserve fund	-	317,406	-	-
Operating reserve fund	59,403	-	-	-
Capital improvement fund	-	-	-	-
Net increase (decrease) in fair value of investments	65,278	324,174	-	220,091
Interest expense	-	-	-	-
Premium amortization	-	-	-	-
Gain (loss) on disposal of fixed assets	-	-	-	-
Total nonoperating revenues (expenses)	124,681	641,580	-	411,395
Income (Loss) Before Transfers	118,676	1,611,449	1,469,632	3,139,974
Transfers In	-	-	-	-
Transfers Out	-	-	(888,632)	-
Change in Net Position	118,676	1,611,449	581,000	3,139,974
Beginning Net Position	6,730,849	5,405,039	8,492,652	13,567,030
Prior Period Adjustment	-	-	-	-
Ending Net Position	$ 6,849,525	$ 7,016,488	$ 9,073,652	$ 16,707,004

(Continued)

Silicon Valley Clean Water
Combining Schedule of Activities and Changes in Net Position
Enterprise Funds
For the Fiscal Year Ended June 30, 2019

	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Operating Revenues:					
Member contributions for services	$ -	$ 241,375	$ -	$ 24,197,664	$ 24,439,039
Member contributions for cash reserves	-	-	-	-	5,232,796
Member contributions for debt service	-	-	38,700,687	-	38,700,687
Sources control charges	-	-	-	51,206	51,206
Miscellaneous revenues	-	-	-	397,330	404,146
Total operating revenues	-	241,375	38,700,687	24,646,200	68,827,874
Operating Expenses:					
Operations	-	172,600	9,971	8,487,280	8,669,851
Maintenance	-	28,180	-	6,373,299	6,424,080
Laboratory	-	12,640	-	1,710,575	1,723,215
Environmental services	-	-	-	1,147,991	1,147,991
Engineering	-	-	416,937	903,887	1,320,911
Information systems	-	-	-	1,585,728	1,585,728
Safety	-	-	-	421,319	421,319
Administration	25,270	-	214	4,842,475	4,922,808
Depreciation	-	-	-	8,986,961	8,986,961
Total operating expenses	25,270	213,420	427,122	34,459,515	35,202,864
Operating Income (Loss)	(25,270)	27,955	38,273,565	(9,813,315)	33,625,010
Nonoperating Revenues (Expenses):					
Grants	-	-	-	273,678	273,678
Other revenue (expense)	-	-	-	793,208	793,208
Interest Income:					
Operations fund	-	-	-	40,104	40,104
Stage 2 capacity fund	-	-	-	-	191,304
Capital improvement reserve fund	-	-	-	-	317,406
Operating reserve fund	-	-	-	-	59,403
Capital improvement fund	-	-	2,597,917	-	2,597,917
Net increase (decrease) in fair value of investments	-	-	(105,326)	20,044	524,261
Interest expense	-	-	(14,508,313)	-	(14,508,313)
Premium amortization	-	-	941,868	-	941,868
Gain (loss) on disposal of fixed assets	-	-	-	(12,576)	(12,576)
Total nonoperating revenues (expenses)	-	-	(11,073,854)	1,114,458	(8,781,740)
Income (Loss) Before Transfers	(25,270)	27,955	27,199,711	(8,698,857)	24,843,270
Transfers In	-	-	-	1,629,537	1,629,537
Transfers Out	-	-	(740,905)	-	(1,629,537)
Change in Net Position	(25,270)	27,955	26,458,806	(7,069,320)	24,843,270
Beginning Net Position	212,050	(517)	(103,569,887)	148,828,642	79,665,858
Prior Period Adjustment	-	-	252,321	-	252,321
Ending Net Position	$ 186,780	$ 27,438	$(76,858,760)	$ 141,759,322	$ 104,761,449

(Concluded)

Silicon Valley Clean Water
Combining Schedule of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2019

	Operating Reserve	Capital Improvement Program Reserve	Capital Improvements	Construction Stage 2
Cash Flows from Operating Activities:				
Cash received from member agencies	$ -	$ 1,000,008	$ 1,485,504	$ 1,884,917
Cash paid to suppliers for goods and services and employees for services	(5,591)	(17,522)	56,227	(18,705)
Other cash received (paid)	-	-	6,816	-
Net Cash Provided (Used) by Operating Activities	(5,591)	982,486	1,548,547	1,866,212
Cash Flows from Capital and Related Financing Activities:				
Cash received from member agencies other than for services	-	-	-	-
Cash received from grants	-	-	-	-
Contributions (to) from other funds	(413)	(12,624)	(710,429)	64
Interest paid on capital debt	-	-	-	-
Principal paid on capital debt	-	-	-	-
Cash received on sale of capital assets	-	-	-	-
Purchases and construction of capital assets	-	-	(838,118)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(413)	(12,624)	(1,548,547)	64
Cash Flows from Investing Activities:				
Investment income	124,681	641,580	-	411,395
Net Cash Provided (Used) by Investing Activities	124,681	641,580	-	411,395
Net Increase (Decrease) in Cash and Cash Equivalents	118,677	1,611,442	-	2,277,671
Cash and Cash Equivalents Beginning	3,496,188	17,113,853	-	9,746,180
Cash and Cash Equivalents Ending	$ 3,614,865	$ 18,725,295	$ -	$ 12,023,851
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:				
Operating Income (Loss)	$ (6,005)	$ 969,869	$ 1,469,632	$ 2,728,579
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	-	-
Net change in:				
Accounts receivable	-	12,617	33,773	(862,367)
Employee notes receivable		-	-	-
Inventory	-	-	-	-
Prepaid expenses	-	-	-	-
Deferred outflows of resources for benefits	-	-	-	-
Accounts payable	-	-	43,576	-
Accrued payroll and employee benefits	-	-	-	-
Unearned revenue	414	-	1,566	-
Deferred inflows of resources for benefits	-	-	-	-
Net Cash Provided (Used) by Operating Activities	$ (5,591)	$ 982,486	$ 1,548,547	$ 1,866,212
Noncash Transactions:				
Changes in fair values of investments	$ 65,278	$ 324,174	$ -	$ 220,091
Noncash transfers of capital assets	$ -	$ -	$ (888,632)	$ -

(Continued)

Silicon Valley Clean Water
Combining Schedule of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2019

	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Cash Flows from Operating Activities:					
Cash received from member agencies	$ -	$ 241,375	$ 38,700,687	$ 24,197,664	$ 67,510,155
Cash paid to suppliers for goods and services and employees for services	(25,619)	(317,972)	11,652,026	(25,344,123)	(14,021,279)
Other cash received (paid)	-	-	-	448,536	455,352
Net Cash Provided (Used) by Operating Activities	(25,619)	(76,597)	50,352,713	(697,923)	53,944,228
Cash Flows from Capital and Related Financing Activities:					
Cash received from member agencies other than for services	-	-	-	793,208	793,208
Cash received from grants	-	-	-	273,678	273,678
Contributions (to) from other funds	25,619	76,597	(9,785,100)	10,406,286	-
Interest paid on capital debt	-	-	(14,508,313)	-	(14,508,313)
Principal paid on capital debt	-	-	(4,201,885)	(922,946)	(5,124,831)
Cash received on sale of capital assets	-	-	-	83,101	83,101
Purchases and construction of capital assets	-	-	(117,269,898)	-	(118,108,016)
Net Cash Provided (Used) by Capital and Related Financing Activities	25,619	76,597	(145,765,196)	10,633,327	(136,591,173)
Cash Flows from Investing Activities:					
Investment income	-	-	2,657,332	60,148	3,895,136
Net Cash Provided (Used) by Investing Activities	-	-	2,657,332	60,148	3,895,136
Net Increase (Decrease) in Cash and Cash Equivalents	-	-	(92,755,151)	9,995,552	(78,751,809)
Cash and Cash Equivalents Beginning	-	-	127,206,142	825,802	158,388,165
Cash and Cash Equivalents Ending	$ -	$ -	$ 34,450,991	$ 10,821,354	$ 79,636,356
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:					
Operating Income (Loss)	$ (25,270)	$ 27,955	$ 38,273,565	$ (9,813,315)	$ 33,625,010
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	-	-	-	8,986,961	8,986,961
Net change in:					
Accounts receivable	-	(61,375)	(550,175)	198,616	(1,228,911)
Employee notes receivable	-	-	-	(3,327)	(3,327)
Inventory	-	-	-	(240,761)	(240,761)
Prepaid expenses	-	-	-	(324,880)	(324,880)
Deferred outflows of resources for benefits	-	-	76,969	547,956	624,925
Accounts payable	(349)	(24,473)	12,559,342	(50,239)	12,527,857
Accrued payroll and employee benefits	-	20	(6,988)	(3,214)	(10,182)
Unearned revenue	-	(18,724)	-	1,200	(15,544)
Deferred inflows of resources for benefits	-	-	-	3,080	3,080
Net Cash Provided (Used) by Operating Activities	$ (25,619)	$ (76,597)	$ 50,352,713	$ (697,923)	$ 53,944,228
Noncash Transactions:					
Changes in fair values of investments	$ -	$ -	$ (105,326)	$ 20,044	$ 524,261
Noncash transfers of capital assets	$ -	$ -	$ (740,905)	$ 1,629,537	$ -

(Concluded)

Silicon Valley Clean Water

Analysis of Net Position
Supplemental Schedule (Unaudited)
For the Year Ended June 30, 2019

Fund / Location	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Total
Operations (Fund 18)					
Balance at June 30, 2018	$ 13,199,044	$ 74,045,634	$ 21,810,920	$ 39,863,073	$ 148,918,671
Member Agency Contributions	2,971,800	11,237,544	3,065,580	6,922,740	24,197,664
Other Miscellaneous Revenue	52,793	222,519	66,473	106,752	448,536
Grant Revenue	32,212	135,772	40,559	65,135	273,678
Unrealized Gain / (Loss) on Investments	2,359	9,944	2,971	4,770	20,044
Interest Income	4,913	18,540	4,985	11,666	40,104
Capitalized Projects Transferred from other Funds	153,991	791,466	246,712	437,368	1,629,536
Gain / (Loss) on Asset Disposal	(1,188)	(6,108)	(1,904)	(3,375)	(12,576)
Operating & Maintenance Costs	(2,961,558)	(12,414,276)	(3,514,015)	(6,503,074)	(25,392,922)
Depreciation Expenditures	(849,268)	(4,364,967)	(1,360,626)	(2,412,100)	(8,986,960)
Balance at June 30, 2019	$ 12,605,098	$ 69,676,067	$ 20,361,655	$ 38,492,955	$ 141,135,774
Retiree Medical Health Benefits Reserve (Fund 12)					
Balance at June 30, 2018	$ (4,026)	$ (73,360)	$ 53,759	$ (66,404)	$ (90,031)
Contributions to Fund 12	93,361	393,511	117,553	188,784	793,208
Expenditures	(9,372)	(39,504)	(11,801)	(18,952)	(79,630)
Balance at June 30, 2019	$ 79,962	$ 280,646	$ 159,511	$ 103,428	$ 623,548
Capital Improvement Program Reserve (Fund 13)					
Balance at June 30, 2018	$ 510,768	$ 2,625,217	$ 818,332	$ 1,450,722	$ 5,405,039
Member Contributions - Replacement Reserve	94,500	485,700	151,404	268,404	1,000,008
Change in Fair Value, Unrealized Gain/(Loss)	30,634	157,451	49,080	87,008	324,174
Fees	(2,848)	(14,638)	(4,563)	(8,089)	(30,139)
Interest Income	29,995	154,164	48,055	85,192	317,406
Balance at June 30, 2019	$ 663,049	$ 3,407,894	$ 1,062,308	$ 1,883,237	$ 7,016,488
Construction Stage 2 (Fund 15)					
Balance at June 30, 2018	$ 529,038	$ 7,154,350	$ 2,082,073	$ 3,801,569	$ 13,567,030
Member Purchases of Capacity	-	2,048,946	698,338	-	2,747,284
Interest Income	18,078	92,916	28,963	51,346	191,304
Interest / (Unrealized Loss) Investments	20,799	106,898	33,322	59,072	220,091
Fees	(1,768)	(9,085)	(2,832)	(5,020)	(18,705)
Capitalized Projects Transferred to Fund 18	-	-	-	-	-
Balance at June 30, 2019	$ 566,147	$ 9,394,025	$ 2,839,865	$ 3,906,967	$ 16,707,004
Self Insurance (Fund 16)					
Balance at June 30, 2018	$ 22,613	$ 88,168	$ 37,855	$ 63,413	$ 212,050
Expenses / Claims	(2,974)	(12,537)	(3,745)	(6,014)	(25,270)
Balance at June 30, 2019	$ 19,639	$ 75,631	$ 34,110	$ 57,399	$ 186,780
Operating & Capital Reserve (Fund 17)					
Balance at June 30, 2018	$ 758,137	$ 3,314,915	$ 862,410	$ 1,795,387	$ 6,730,849
Member Contributions	-	-	-	-	-
Unrealized Gain / (Loss) on Investment	7,683	32,385	9,674	15,536	65,278
Fees	(707)	(2,979)	(890)	(1,429)	(6,005)
Interest Income	6,992	29,470	8,803	14,138	59,403
Balance at June 30, 2019	$ 772,105	$ 3,373,790	$ 879,998	$ 1,823,632	$ 6,849,525

Silicon Valley Clean Water

Analysis of Net Position
Supplemental Schedule (Unaudited)
For the Year Ended June 30, 2019

Fund / Location	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Total
Revenue-Funded Capital Improvements (Fund 14)					
Balance at June 30, 2018	$ 860,743	$ 4,210,257	$ 1,047,363	$ 2,374,290	$ 8,492,653
Member Contributions - Pay go capital projects	140,380	721,509	224,905	398,709	1,485,504
Miscellaneous Revenue	644	3,311	1,032	1,830	6,816
Project Expenditures not yet transferred to Fund 18	(2,144)	(11,020)	(3,435)	(6,090)	(22,689)
Capitalized Projects transferred to Fund 18	(83,976)	(431,609)	(134,539)	(238,509)	(888,632)
Balance at June 30, 2019	$ 915,647	$ 4,492,448	$ 1,135,326	$ 2,530,230	$ 9,073,652
Recycled Water (Fund 19)					
Balance at June 30, 2018	$ -	$ (517)	$ -	$ -	$ (517)
RWC Recycled Water O&M Contributions	-	241,375	-	-	241,375
RWC Recycled Water O&M Expenditures	-	(213,420)	-	-	(213,420)
Balance at June 30, 2019	$ -	$ 27,438	$ -	$ -	$ 27,438
Plant Capital Improvement Program (Fund 20)					
Balance at June 30, 2018	8,184,201	(54,089,588)	(20,567,391)	(37,097,108)	$ (103,569,886)
Member Contributions	10,758,841	11,841,520	3,689,899	12,410,427	38,700,687
Unrealized Gain (Loss)	-	(61,423)	(19,160)	(24,743)	(105,326)
Interest on Trustee Reserves	-	1,515,030	472,587	610,299	2,597,917
Capitalized Projects Transferred to Fund 18	(70,015)	(359,857)	(112,173)	(198,859)	(740,905)
Interest Expense, Direct	(19,706)	(7,484,401)	(2,335,037)	(3,639,055)	(13,478,198)
Interest Expense, Allocated	(51,295)	(492,839)	(154,596)	(254,415)	(953,145)
Amortization of Bond Premium	-	538,565	156,844	246,459	941,868
Other Expenses	(47,637)	(244,838)	(76,320)	(135,299)	(504,093)
Prior Period Adjustment	23,844	122,552	38,201	67,723	252,321
Balance at June 30, 2019	$ 18,778,233	$ (48,715,278)	$ (18,907,145)	$ (28,014,570)	$ (76,858,760)
TOTAL NET POSITION - June 30, 2019	**$ 34,399,880**	**$ 42,012,663**	**$ 7,565,628**	**$ 20,783,277**	**$ 104,761,449**
CY %	*32.84%*	*40.10%*	*7.22%*	*19.84%*	*100.00%*

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OTHER INDEPENDENT AUDITOR'S REPORT

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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 Commission
Silicon Valley Clean Water

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 Silicon Valley Clean Water (SVCW) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise SVCW's basic financial statements, and have issued our report thereon dated November 25, 2019.

Internal Control over Financial Reporting

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

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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.

Maze & Associates

November 25, 2019
Pleasant Hill, California