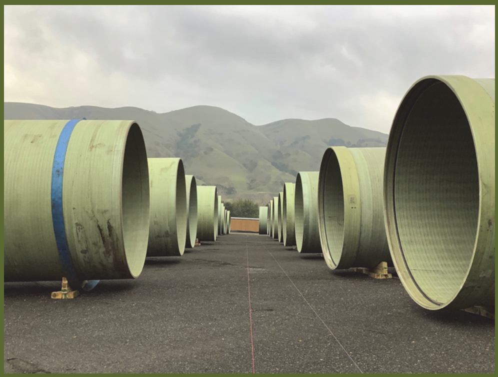

# Annual Financial Report

For the Year Ended
June 30, 2020

SVCW
Silicon Valley Clean Water

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**SILICON VALLEY CLEAN WATER**

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2020

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**Silicon Valley Clean Water**

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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, 2020, 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, 2020, 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 October 15, 2020 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.

Maze & Associates

October 15, 2020
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, 2020 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, 2019. 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 225,000 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 2019-20 allocates operating and maintenance costs to the Members as follows:

- City of Redwood City 47.6%
- West Bay Sanitary District 27.3%
- City of San Carlos 13.2%
- City of Belmont 11.9%

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 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|
| Redwood City | 6.4 | 7.8 | 7.2 | 7.7 | 7.1 |
| West Bay | 3.8 | 3.9 | 3.4 | 3.5 | 2.8 |
| San Carlos | 1.5 | 2.7 | 2.0 | 2.2 | 1.7 |
| Belmont | 1.7 | 2.0 | 1.6 | 1.8 | 1.5 |
| Total | 13.4 | 16.4 | 14.2 | 15.2 | 13.1 |

## FINANCIAL ANALYSIS

Our analysis of SVCW begins on page 20 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 2019-20 operating revenues and expenses were comparable both to the prior fiscal year as well as to the 2019-20 Budget. The most significant differences from the prior year were the result of increased debt service activities to fund ongoing capital improvements. This closely relates to cash expenditures of $135.6 million for capital improvement construction. The Regional Environmental Sewer Conveyance Upgrade (RESCU) program has entered peak construction activity 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, 2020, SVCW long-term debt was $552.7 million, a net increase of $213.8 million after a new issuance of the 2019 Wastewater Revenue Notes. State Revolving Fund (SRF) loan balances decreased by $1.9M after repayments.

The SVCW Commission has an established reserve policy to protect its fiscal solvency. As of June 30, 2020, cash reserves totaled $37.2 million including an Operating Reserve, a Capital Improvement Program Reserve, and a Stage 2 Capacity Reserve. Of this amount, the Authority has restricted $4.2 million as required by SRF loan agreements.

## FINANCIAL HIGHLIGHTS

- SVCW net position increased during fiscal year 2019-20 by $18.3 million (17.5%) from the previous year.
- Total assets increased by $224.8 million (46.9%) during the fiscal year. Cash and investments increased by $103.4 million, largely consisting of 2019 Wastewater Revenue Notes proceeds. Depreciable capital assets increased by $35.5 million as several construction projects were reclassified from Construction in Progress to Capital Assets once completed. Construction in progress increased by a net $94.3 million due to ongoing construction related to the Regional Environmental Sewer Conveyance Upgrade (RESCU) program.
- Total liabilities increased by $212.3 million (56%) during the fiscal year. SVCW issued 2019 Wastewater Revenue Notes, increasing Long Term Debt by $213.8 million. Net pension liabilities increased by $1.5 million in response to changes in SVCW proportions and lower investment returns during the fiscal year 2018-19 measurement period. The above items were slightly offset by a $5.6 million decrease in Accounts Payable from timing of invoice payments, and the establishment of an escrow account for a large RESCU contract.

- Operating revenues, including cash contributions for capital programs and Capacity Reserves, decreased by $5.8 million (8.4%) from the previous year. While Members' contributions for operations slightly increased, cash-in-lieu-of financing contributions decreased by $4.2 million. Stage 2 Capacity Reserve contributions were approximately $1.8 million less than the previous year.
- Total expenses ended the fiscal year at $53 million, a $4.2 million increase (8.7%) compared to the prior year. Operating expenses were $2.5 million more than prior year as SVCW filled personnel vacancies, incurred ordinary inflationary pressures, increased pension liability and expense due to changes in SVCW proportion and lower than expected CalPERS returns, and incurred cost of issuance expenses for its 2019 Wastewater Revenue Notes. Non-operating expense increased $1.7 million (12.4%) as interest expense associated with additional debt increased. Depreciation increased by $54.8 thousand as capital projects were placed into service.

## NET POSITION

A summary of SVCW's Statement of Net Position is presented in Table 1, which indicates a $18.4 million increase in SVCW's net position from fiscal year 2019-20. Significant changes during the fiscal year included:

- Current and other assets increased by $98.7 million (123.2%), largely consisting of 2019 Wastewater Revenue Notes proceeds.
- Restricted assets decreased by $3.7 million (46.9%) as a $5 million reserve account was liquidated after 2009 Wastewater Revenue Bonds were fully defeased. SVCW separately restricted another $1.5 million to satisfy reserve requirements of its State Revolving Fund Conveyance Planning loan.
- Capital assets, net of depreciation, increased by $129.8 million (33.2%) as Construction in Progress continued and projects were placed into service during the year.
- Total SVCW liabilities increased by $212.3 million (56%). The most significant change was the $203.8 million increase in bonds payable and $12 million increase in unamortized bond premium associated with the issuance of 2019 Wastewater Revenue Notes. Other changes in liabilities were due to timing of accounts payable and notes payable.
- Deferred Outflows and Deferred Inflows represent changes in the components of Authority's pension liability, Other Post-Employment Benefits (OPEB), and deferred loss on defeasance. The most significant change in deferred outflows was the impact of the defeasance of 2009 Wastewater Revenue Bonds.

**TABLE 1**
**Condensed Statement of Net Position**

| | Fiscal Year 2020 | Fiscal Year 2019 | $ Higher / (Lower) | % Higher / (Lower) |
|---|---|---|---|---|
| Current and other assets | $ 178,782,960 | $ 80,094,833 | $ 98,688,127 | 123.2% |
| Restricted assets | 4,156,730 | 7,823,426 | (3,666,696) | (46.9%) |
| Capital assets | 521,219,751 | 391,416,119 | 129,803,632 | 33.2% |
| **Total Assets** | **704,159,441** | **479,334,378** | **224,825,063** | **46.9%** |
| **Deferred Outflows** | **11,547,297** | **5,611,134** | **5,936,163** | **105.8%** |
| **Total Liabilities** | **591,228,059** | **378,937,205** | **212,290,854** | **56.0%** |
| **Deferred Inflows** | **1,366,694** | **1,246,858** | **119,836** | **9.6%** |
| Net investment in capital assets | 107,641,792 | 87,049,556 | 20,592,236 | 23.7% |
| Restricted | 4,156,730 | 7,823,426 | (3,666,696) | (46.9%) |
| Unrestricted | 11,313,463 | 9,888,467 | 1,424,996 | 14.4% |
| **Total Net Position** | **$ 123,111,985** | **$ 104,761,449** | **$ 18,350,536** | **17.5%** |

Table 2 below summarizes activities associated with all construction-related funds. Members contributed $1 million, $1.7 million, $52.6 thousand, and $935.9 thousand, respectively, to Capital Improvement Program Reserve, Revenue-Funded Capital Program, Operating Reserve, and Stage 2 Capacity Reserve, respectively. In the Capital Improvement Program Fund, approximately $33.5 million was received to pay for debt service and project expenditures.

As part of continued expenditures on its Capital Improvement Program, SVCW spent $135.6 million on capital projects during fiscal year 2019-20. Notable expenditures included repair of an effluent pipe as well as construction of gravity pipeline tunnel, front-of-plant headworks facilities, and improvements to pump stations.

**TABLE 2**
**Construction Fund Activity**

| | Capital Improvement Program Reserve (13 Fund) | Revenue-Funded Capital Program (14 Fund) | Operating Reserve (17 Fund) | Stage 2 Capacity Reserve (15 Fund) | Capital Improvement Program Construction (20 Fund) | Totals |
|---|---|---|---|---|---|---|
| Member contributions | $ 1,000,008 | $ 1,684,332 | $ 52,572 | $ 935,920 | $ 33,458,052 | $ 37,130,884 |
| Operating income | - | 6,809 | - | - | - | 6,809 |
| Interest Earnings | 1,314,113 | - | 161,133 | 882,878 | 4,844,575 | 7,202,699 |
| **Total Revenue** | **$ 2,314,121** | **$ 1,691,141** | **$ 213,705** | **$ 1,818,798** | **$ 38,302,627** | **$ 44,340,392** |
| Cash to construction | $ - | $ 5,760,728 | $ - | | $ 129,795,603 | $ 135,556,331 |

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 2019-20 revenues decreased from the prior year by $2.2 million (3.1%), of which Operating Revenues decreased by $5.8 million (8.4%) and reflects decreased contributions for Stage 2 and debt service cash contributions. Non-operating Revenues increased by $3.6 million (74.1%) as interest income was earned due to a combination of market conditions and higher balance of 2019 Note proceeds.

Fiscal year 2019-20 total expenses increased by $4.2 million (8.7%) over the prior year, which included changes in several key expenditures:

- Depreciation expense increased by $54.8 thousand (0.6%) after new projects were placed into service during the year.
- Operating expenses were increased by $2.5 million (9.6%), primarily related to filling personnel vacancies, incurring ordinary inflationary pressures, plus recognition of an increase in pension expenses associated with changes in SVCW proportion and lower-than-expected CalPERS investment returns. Additionally there was a change in accounting policy to recognize higher long-term liabilities of implied subsidy for retirement medical costs. Finally, SVCW incurred issuance expenses for the 2019 Wastewater Revenue Notes.
- Non-operating expenses increased $1.7 million (12.4%) related to interest expense of more debt, offset by premium amortization associated with 2019 Wastewater Revenue Notes.

**TABLE 3**
**Condensed Statements of Activities and Changes in Net Position**

| | Fiscal Year 2020 | Fiscal Year 2019 | $ Higher / (Lower) | % Higher / (Lower) |
|---|---|---|---|---|
| Operating revenues | $ 63,024,743 | $ 68,827,874 | $ (5,803,131) | (8.4%) |
| Non-operating revenues | 8,354,342 | 4,797,281 | 3,557,061 | 74.1% |
| Capital Contributions | - | - | - | - |
| **Total Revenues** | **71,379,085** | **73,625,155** | **(2,246,070)** | **(3.1%)** |
| Depreciation expense | 9,041,764 | 8,986,961 | 54,803 | 0.6% |
| Operating expense | 28,720,766 | 26,215,903 | 2,504,863 | 9.6% |
| Non-operating expense | 15,266,019 | 13,579,021 | 1,686,998 | 12.4% |
| **Total Expenses** | **53,028,549** | **48,781,885** | **4,246,664** | **8.7%** |
| **Changes in Net Position** | **18,350,536** | **24,843,270** | **(6,492,734)** | **(26.1%)** |
| Prior period adjustment | - | 252,321 | (252,321) | (100.0%) |
| Beginning net position | 104,761,449 | 79,665,858 | 25,095,591 | 31.5% |
| Beginning net position - adjusted | 104,761,449 | 79,918,179 | 24,843,270 | 31.1% |
| **Ending Net Position** | **$ 123,111,985** | **$ 104,761,449** | **$ 18,350,536** | **17.5%** |

## 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, 2020.

**TABLE 4**
**FY 2019-2020 Actual vs Budget**

| | Actual | Budget | $ Higher/ (Lower) | % Higher/ (Lower) |
|---|---|---|---|---|
| Member Contributions | $ 25,209,276 | $25,209,277 | $ (1) | (0.0%) |
| Source Control Revenue | 61,963 | 241,500 | (179,537) | (74.3%) |
| Other Revenue | 372,366 | 543,000 | (170,634) | (31.4%) |
| **Total Operating Revenue** | **25,643,605** | **25,993,777** | **(350,172)** | **(1.3%)** |
| Operations | 10,072,541 | 9,780,104 | 292,437 | 3.0% |
| Maintenance | 6,689,721 | 6,474,578 | 215,143 | 3.3% |
| Laboratory | 1,979,154 | 1,770,665 | 208,489 | 11.8% |
| Environmental Services | 1,051,499 | 1,240,862 | (189,363) | (15.3%) |
| Engineering | 879,262 | 809,095 | 70,167 | 8.7% |
| Information Services | 1,650,921 | 1,813,120 | (162,199) | (8.9%) |
| Safety | 451,703 | 483,627 | (31,924) | (6.6%) |
| Administration | 4,427,578 | 3,896,727 | 530,851 | 13.6% |
| Depreciation | 9,041,764 | 9,041,764 | - | - |
| **Total Operating Expenses** | **36,244,143** | **35,310,542** | **933,601** | **2.6%** |
| **Operating Income/(Loss)** | **$ (10,600,538)** | **$ (9,316,765)** | **$ (1,283,773)** | **(13.8%)** |

Inclusive of $9 million in depreciation, SVCW reported an Operating Fund loss of $10.6 million, which was $1.3 million (13.8%) more than budgeted. Total expenses were $933.6 thousand (2.6%) more than budgeted, the largest cause of which was pension liability adjustments made at year-end to recognize changes in SVCW's proportion of its pooled pension plan as well as amortization of less-than-anticipated CalPERS investment returns. Specific variances by Division include:

- Source Control and Other Revenue were affected by the Coronavirus quarantine, particularly restaurant grease programs, stormwater monitoring, and laboratory services.

- Operations expenses were higher than budget by $292.4 thousand (3%). In addition to the impact of $490 thousand in additional pension liability adjustments, electricity utility billings to the treatment plant included $218 thousand in retroactive charges for unread meters during construction. The above increases were offset by $134 thousand price savings on chemicals as well as $222 thousand less spending on outside services for biosolids disposal.
- Maintenance expenses were higher than budget by $215.1 thousand (3.3%). There was a $486 thousand charge for additional pension liability adjustments, which was offset by deferred spending on certain repairs and training during the coronavirus quarantine period.
- Laboratory Services expenses were $208.5 thousand (11.8%) higher than budget, due to annual permit fees being assessed to the Laboratory Division rather than to the Environmental Services division.
- Environmental Services expenses were $189.4 thousand (15.3%) below budget due to permit fees no longer being assessed to the Environmental Services Division.
- Engineering expenses were $70.2 thousand (8.7%) higher than budget after incurring unanticipated consulting services to investigate design and electrical needs, plus an increased allocation of Director payroll to the Operating Fund.
- The Information Services Division expenses were $162.2 thousand (8.9%) less than budget. Less was spent on control systems software as the costs were absorbed by a related software capital project. Similarly, data backup and storage costs were reduced after a prior capital project was completed.
- The Safety Division expenses were below budget by $31.9 thousand (6.6%) as, during the pandemic period, many training classes were deferred. Additionally, SVCW did not incur hazardous waste cleanup costs that had been budgeted.
- The Administration Division incurred costs that were not anticipated in the Budget and ended the fiscal year $530.9 thousand (13.6%) above budget. While general spending was below budget during the fiscal year, these savings were offset by accounting adjustments for pension and OPEB. Such charges incorporated $1.9 million in pension expense that included SVCW's increased proportion of the pooled program, and amortization of less-than-anticipated CalPERS investment returns. Additionally, there was a $929 thousand charge for a changed accounting policy related to how SVCW recognizes its future OPEB implied subsidy liability.

## 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, and 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 2018-19 and 2019-20, Net Property Plant & Equipment (PP&E) was $144.1 million and $179.6 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, 2019 | Additions | Deletions | Adjustments & Transfers | Balance at June 30, 2020 |
|---|---|---|---|---|---|
| Land | $ 1,282,081 | $ - | $ - | $ - | $ 1,282,081 |
| Buildings & Structures | 84,762,953 | 903,455 | - | - | 85,666,408 |
| Pipelines | 55,458,204 | 11,212,679 | - | - | 66,670,883 |
| Pump Stations | 7,473,953 | 1,148,038 | - | - | 8,621,991 |
| Machines & Equipment | 93,174,269 | 31,279,671 | - | - | 124,453,940 |
| **Total PP&E, Cost** | **242,151,460** | **44,543,843** | **-** | **-** | **286,695,303** |
| Accum. Depreciation | 98,017,973 | 9,041,751 | - | 12 | 107,059,736 |
| **Total PP&E, Net** | **$ 144,133,487** | **$ 35,502,092** | **$ -** | **$ (12)** | **$ 179,635,567** |
| **Construction in Progress:** | | | | | |
| Stage 2 Capacity | $ 2,934,618 | $ - | $ - | | $ 2,934,618 |
| General | 244,348,014 | 138,854,299 | - | (44,552,747) | 338,649,566 |
| **Total CIP** | **$ 247,282,632** | **$ 138,854,299** | **$ -** | **$ (44,552,747)** | **$ 341,584,184** |

## LONG TERM DEBT

Including a Line of Credit but excluding Unamortized Premium on outstanding Bonds and Notes, SVCW had total long-term debt outstanding of $516 million as of June 30, 2020, a $201.9 million increase from June 30, 2019. Components of SVCW's long-term debt liability as of June 30, 2020 include $466.4 million of Wastewater Revenue Bonds and Notes (excluding unamortized premiums of $36.7 million), and Notes Payable obligations to the California Clean Water State Revolving Fund for approximately $49.5 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*

As of June 30, 2020, SVCW has $466.4 million outstanding in Wastewater Revenue Bonds and Notes par value, the proceeds for which were used to acquire and construct wastewater system improvements. These Bonds and Notes 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, West Bay Sanitary District, and the City of Belmont (the "Participating Members"). Table 6 below shows the total Bonds and Notes outstanding for the fiscal years ended June 30, 2019 and 2020:

**TABLE 6**
**Wastewater Revenue Bonds/Notes**

| Bonds/Notes | Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds/Notes Outstanding July 01, 2019 | Issued (Redeemed) | Bonds/Notes Outstanding June 30, 2020 |
|---|---|---|---|---|---|---|---|
| 2009 Revenue Bond | 2009 | 8/1/2039 | 1.74-8.1% | $ 55,855,000 | $ 1,305,000 | $ (1,305,000) | $ - |
| 2014 Revenue Bond | 2014 | 2/1/2044 | 3.0-5.0% | 60,000,000 | 55,020,000 | (1,160,000) | 53,860,000 |
| 2015 Revenue Bond | 2015 | 8/1/2045 | 2.0-5.0% | 70,200,000 | 67,855,000 | (830,000) | 67,025,000 |
| 2018 Revenue Bond | 2018 | 8/1/2049 | 3.125-5% | 140,955,000 | 138,495,000 | (2,245,000) | 136,250,000 |
| 2019 Revenue Notes | 2019 | 3/1/2024 | 3% | 209,300,000 | - | 209,300,000 | 209,300,000 |
| **Total Wastewater Revenue Bonds/Notes** | | | | **$ 536,310,000** | **$ 262,675,000** | **$ 203,760,000** | **$ 466,435,000** |

*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 $49.5 million as of June 30, 2020. 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 $8.1 million as of June 30, 2020 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 phase 1. The total outstanding balance as of June 30, 2020 totaled $27.4 million and the final payment is scheduled October 31, 2036.

In February 2016, SVCW entered a third SWRCB agreement for up to $14 million to plan improvements to its conveyance system. As of June 30, 2020, 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 year 2021.

*Line of Credit*

On May 29, 2018, SVCW secured a $30 million line of credit with Wells Fargo Bank with an accordion feature for up to $65 million. 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, 2020.

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 2020-21 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. This MOU 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 2020-21 Operating Fund Budget to the fiscal year 2019-20 actual results. Total 2020-21 Operating Revenues are anticipated to increase $1.8 million (7.1%) from prior year actual revenues as Member Contributions increase to cover operating costs. Additionally, for Source Control Revenue and Other Revenues, SVCW implemented a stormwater program, recognized increased deliveries of food grease, and raised its rates charged for laboratory and source control services.

Total 2020-21 Operating Expenses are anticipated to increase $526.1 thousand (1.5%) from prior year actual expenditures. The largest increase over 2019-20 actual expenditures is from pension liability due to the changes in SVCW proportion and low CalPERS returns and changes in the accounting policy recognizing long-term liability for OPEB implied subsidy.

**TABLE 7**
**FY 2020-2021 Budget vs FY 2019-2020 Actual**

| | FY 2020-2021 Budget | FY2019-2020 Actual | $ Increase / (Decrease) | % Increase / (Decrease) |
|---|---|---|---|---|
| Member Contributions | $ 26,628,984 | $ 25,209,276 | $ 1,419,708 | 5.6% |
| Source Control Revenue | 241,500 | 61,963 | 179,537 | 289.7% |
| Other Revenues | 583,000 | 372,366 | 210,634 | 56.6% |
| **Total Operating Revenue** | **27,453,484** | **25,643,605** | **1,809,879** | **7.1%** |
| Operations | 10,554,300 | 10,072,541 | 481,759 | 4.8% |
| Maintenance | 6,835,021 | 6,689,721 | 145,300 | 2.2% |
| Laboratory | 1,890,060 | 1,979,154 | (89,094) | (4.5%) |
| Environmental Services | 1,044,663 | 1,051,499 | (6,836) | (0.7%) |
| Engineering | 990,110 | 879,262 | 110,848 | 12.6% |
| Information Systems | 534,072 | 1,650,921 | (1,116,849) | (67.7%) |
| Safety | 1,718,814 | 451,703 | 1,267,111 | 280.5% |
| Administration | 4,161,444 | 4,427,578 | (266,134) | (6.0%) |
| Depreciation | 9,041,764 | 9,041,764 | - | - |
| **Total Operating Expenses** | **36,770,248** | **36,244,143** | **526,105** | **1.5%** |
| **Operating Income/(Loss)** | **$ (9,316,764)** | **$ (10,600,538)** | **$ 1,283,774** | **12.1%** |

## 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, 2020
(With Comparative Totals as of June 30, 2020)

| **Assets** | | 2020 | | 2019 |
|---|---|---|---|---|
| Current Assets: | | | | |
| Cash and investments | $ | 175,208,430 | $ | 71,812,930 |
| Cash restricted for debt service | | 4,156,730 | | 7,823,426 |
| Accounts receivable | | 1,568,509 | | 1,937,298 |
| Interest receivable | | 18,931 | | 517,075 |
| Employee notes receivable | | 18,145 | | 19,850 |
| Inventory | | 1,865,149 | | 2,095,290 |
| Prepaid expenses | | 103,796 | | 423,325 |
| Total Current Assets | | 182,939,690 | | 84,629,194 |
| Noncurrent Assets: | | | | |
| Property held for resale | | - | | 3,289,065 |
| Capital assets: | | | | |
| Depreciable capital assets - net | | 178,353,486 | | 142,851,406 |
| Non depreciable capital assets: | | | | |
| Land | | 1,282,081 | | 1,282,081 |
| Construction in progress: | | | | |
| Stage 2 | | 2,934,618 | | 2,934,618 |
| General | | 338,649,566 | | 244,348,014 |
| Total capital assets - net | | 521,219,751 | | 391,416,119 |
| Total Noncurrent Assets | | 521,219,751 | | 394,705,184 |
| Total Assets | $ | 704,159,441 | $ | 479,334,378 |
| **Deferred Outflows of Resources** | | | | |
| Pension related | $ | 4,466,528 | $ | 4,421,241 |
| OPEB related | | 2,302,975 | | 841,064 |
| Deferred Loss on Defeasance | | 4,777,794 | | 348,829 |
| Total Deferred Outflows of Resources | $ | 11,547,297 | $ | 5,611,134 |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts payable | $ | 12,221,582 | $ | 17,856,836 |
| Accrued payroll and employee benefits | | 1,064,043 | | 882,309 |
| Accrued interest payable | | 7,220,362 | | 6,391,797 |
| Unearned revenue | | 918,892 | | 271,903 |
| Compensated absences due within one year | | 1,135,408 | | 933,043 |
| Long term debt due within one year | | 11,703,599 | | 8,369,739 |
| Total Current Liabilities | | 34,263,886 | | 34,705,627 |
| Long term debt due in more than one year | | 540,947,144 | | 330,447,815 |
| Net pension liabilities | | 15,053,146 | | 13,507,192 |
| Net OPEB liabilities | | 963,883 | | 276,571 |
| Total Liabilities | $ | 591,228,059 | $ | 378,937,205 |
| **Deferred inflows of Resources** | | | | |
| Pension related | $ | 1,366,694 | $ | 1,207,125 |
| OPEB related | | - | | 39,733 |
| Total Deferred Inflows of Resources | $ | 1,366,694 | $ | 1,246,858 |
| **Net Position** | | | | |
| Net Investment in Capital Assets | $ | 107,641,792 | $ | 87,049,556 |
| Restricted for: | | | | |
| Debt service | | 4,156,730 | | 7,823,426 |
| Unrestricted | | 11,313,463 | | 9,888,467 |
| Total Net Position | $ | 123,111,985 | $ | 104,761,449 |

*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, 2020

(With Comparative Totals for the Fiscal Year Ended June 30, 2019)

| | 2020 | 2019 |
|---|---|---|
| **Operating Revenues:** | | |
| Member contributions for services | $ 25,452,719 | $ 24,439,039 |
| Member contributions for cash reserves | 3,672,832 | 5,232,796 |
| Member contributions for debt service | 20,488,973 | 38,700,687 |
| Member contributions for cash in-lieu-of financing | 12,969,079 | - |
| Sources control charges | 61,964 | 51,206 |
| Miscellaneous revenues | 379,176 | 404,146 |
| Total operating revenues | 63,024,743 | 68,827,874 |
| **Operating Expenses:** | | |
| Operations | 10,178,096 | 8,669,851 |
| Maintenance | 6,838,650 | 6,424,080 |
| Laboratory | 1,990,912 | 1,723,215 |
| Environmental services | 1,051,499 | 1,147,991 |
| Engineering | 886,211 | 1,320,911 |
| Information systems | 1,650,921 | 1,585,728 |
| Safety | 451,704 | 421,319 |
| Administration | 5,672,773 | 4,922,808 |
| Depreciation | 9,041,764 | 8,986,961 |
| Total operating expenses | 37,762,530 | 35,202,864 |
| **Operating Income (Loss)** | 25,262,213 | 33,625,010 |
| **Nonoperating Revenues (Expenses):** | | |
| Grants | 217,655 | 273,678 |
| Other revenue (expense) | 763,713 | 793,208 |
| Interest by fund: | | |
| Operations fund | 187,022 | 40,104 |
| Stage 2 capacity fund | 325,638 | 191,304 |
| Capital improvement reserve fund | 553,691 | 317,406 |
| Capital improvement fund | - | - |
| Self insurance fund | - | - |
| Operating reserve fund | 77,908 | 59,403 |
| Recycled water fund | - | - |
| Capital improvement fund | 3,369,063 | 2,597,917 |
| Net increase (decrease) in fair value of investments | 2,859,652 | 524,261 |
| Interest expense | (19,603,899) | (14,508,313) |
| Premium amortization | 4,167,599 | 941,868 |
| Gain (loss) on disposal of fixed assets | 170,281 | (12,576) |
| Total nonoperating revenues (expenses) | (6,911,677) | (8,781,740) |
| Change in Net Position | 18,350,536 | 24,843,270 |
| Beginning Net Position | 104,761,449 | 79,665,858 |
| Prior Period Adjustments | - | 252,321 |
| Ending Net Position | $ 123,111,985 | $ 104,761,449 |

*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, 2020
(With Comparative Totals for the Fiscal Year Ended June 30, 2019)

| | 2020 | 2019 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Cash received from member agencies | $ 62,529,029 | $ 67,510,155 |
| Cash paid to suppliers for goods and services and employees for services | (35,435,112) | (14,021,279) |
| Other cash received (paid) | 441,140 | 455,352 |
| Net Cash Provided (Used) by Operating Activities | 27,535,057 | 53,944,228 |
| **Cash Flows from Capital and Related Financing Activities:** | | |
| Cash received from member agencies other than for services | 763,713 | 793,208 |
| Cash received from grants | 217,655 | 273,678 |
| Proceeds from capital debt | - | - |
| Interest paid on capital debt | (19,603,899) | (14,508,313) |
| Principal paid on capital debt | (7,427,870) | (5,124,831) |
| Proceeds from long-term debt | 225,428,658 | - |
| Cash received on the sale of capital assets | 170,281 | 83,101 |
| Purchases and construction of capital assets | (135,556,331) | (118,108,016) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 63,992,207 | (136,591,173) |
| **Cash Flows from Investing Activities:** | | |
| Noncash equivalent investments | - | - |
| Investment income | 8,201,540 | 3,895,136 |
| Net Cash Provided (Used) by Investing Activities | 8,201,540 | 3,895,136 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 99,728,804 | (78,751,809) |
| Cash and Cash Equivalents Beginning | 79,636,356 | 158,388,165 |
| Cash and Cash Equivalents Ending | $ 179,365,160 | $ 79,636,356 |
| **Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:** | | |
| Operating Income (Loss) | $ 25,262,213 | $ 33,625,010 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 9,041,764 | 8,986,961 |
| Net change in: | | |
| Accounts receivable | 866,933 | (1,228,911) |
| Employee notes receivable | 1,705 | (3,327) |
| Inventory | 230,141 | (240,761) |
| Prepaid expenses | 319,529 | (324,880) |
| Deferred outflows of resources for benefits | (5,936,163) | 624,925 |
| Accounts payable | (5,635,254) | 12,527,857 |
| Accrued payroll and employee benefits | 2,617,365 | (10,182) |
| Unearned revenue | 646,988 | (15,544) |
| Deferred inflows of resources for benefits | 119,836 | 3,080 |
| Net Cash Provided (Used) by Operating Activities | $ 27,535,057 | $ 53,944,228 |
| **Reconciliation of Cash and Cash Equivalents:** | | |
| Cash and investments | $ 179,365,160 | $ 79,636,356 |
| Less: investments with original maturities in excess of three months | - | - |
| Cash and Cash Equivalents | $ 179,365,160 | $ 79,636,356 |

*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 and now maintains and operates sanitary sewerage pumping, transmission and outfall facilities that were constructed. 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 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 are 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 are 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 investment of its own cash reserves as well as an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF). LAIF invests 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, 2020.

### *Inventories*

Inventories are valued using the first in, first out (FIFO) 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 up to a maximum of twice an employee's annual vacation entitlement. 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, financial transactions (deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense information about the fiduciary net position of SVCW's Retiree Benefit 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***

**2020 WIFIA Loan Interest Rate Reset**

On November 17, 2020, SVCW and the United States Environmental Protection Agency re-executed the 2019 WIFIA Loan Agreement in order to reduce the interest rate on its $218 million WIFIA loan. The interest rate was reduced from 2.40% to 1.41%. There were no other changes to the WIFIA Loan.

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.

***Upcoming New Accounting Pronouncements***

***GASB issued Statement No. 87, Leases***

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement 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 implemented this statement in its financial statement ended June 30, 2019.

***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, 2020 and 2019:

| Cash and Investments | June 30, 2020 | June 30, 2019 | Investment Rating | Input Level |
|---|---|---|---|---|
| Cash: | | | | |
| Demand deposits | $ 1,401,735 | $ 264,182 | n/a | n/a |
| Cash on hand | 1,000 | 1,000 | n/a | n/a |
| Total Cash | 1,402,735 | 265,182 | | |
| Investments: | | | | |
| US Treasuries | 121,111,359 | 7,193,462 | AA+ | 1 |
| US Government Agencies | 14,648,587 | 24,351,957 | AA+ | 1 |
| Commercial paper/Corp bonds | 7,840,027 | 1,493,658 | BBB+/AA+ | 1 |
| Municipal bonds/notes | 486,493 | 399,192 | AA-/NR | 1 |
| Supranationals | 125,856 | - | AAA | 1 |
| Money Market/Certificates of Deposit | 17,651,968 | 35,394,772 | n/a | 2 |
| California Asset Management Program | 15,833,933 | | AAAm | |
| Local Agency Investment Fund | 264,202 | 10,538,133 | Not rated | n/a |
| Total Investments | 177,962,425 | 79,371,174 | | |
| Total Cash and Investments * | $ 179,365,160 | $ 79,636,356 | | |

### *Interest Rate Risk*

The following is a summary of the Authority's investments by maturity as of June 30, 2020:

| Maturity | June 30, 2020 | June 30, 2019 |
|---|---|---|
| 0-1 years | $ 92,798,291 | $ 61,814,839 |
| 1-2 years | 37,717,648 | 7,961,197 |
| 2-3 years | 14,546,971 | 7,122,689 |
| 3-5 years | 14,513,163 | 2,472,449 |
| Over 5 years | 18,386,352 | - |
| Total Investments | $ 177,962,425 | $ 79,371,174 |

### *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 exceeded the insured limit as of June 30, 2020. All 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***

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 $4,156,730 in cash and investments as of June 30, 2020 held by trustees or fiscal agent, all of which was pledged for the payment or security of bonds.

***Local Agency Investment Fund***

SVCW is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are maintained on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. On June 30, 2020, the investments matured in an average of 191 days.

***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 | Minimum Credit Quality | Maximum % of Portfolio | SVCW Maximum Investment in Single Issuer |
|---|---|---|---|---|
| Local Agency Municipal Bonds | 5 years | A, A1 | 30% | 5% |
| U.S. Treasury Obligations | 5 years* | None | None | 100% |
| State of California and Other State Obligations | 5 years* | None | 30% | 5% |
| CA Local Agency Obligations | 5 years* | None | 30% | 5% |
| U.S. Agency Securities | 5 years* | None | None | 100% |
| Bankers Acceptances | 180 days | None | 40% | None |
| Commercial Paper (pooled) | 270 days | A1 / P1 | 40% | None |
| Commercial Paper (non-pooled) | 270 days | A1 / P1 | 25% | None |
| Negotiable Certificates of Deposit | 5 years | None | 15% | 5% |
| Non-Negotiable Certificates of Deposit | 5 years | None | None | None |
| Placement Service Deposits | 5 years | None | 30% **(A)** | None |
| Placement Service Certificates of Deposit | 5 years | None | 30% **(A)** | None |
| Medium Term Corporate Notes | 5 years | A | 30% | 30% |
| Money Market Mutual Funds | N/A | AAA | 20% | 20% |
| Collateralized Bank Deposits | 5 years | None | None | 100% |
| Mortgage Pass-Through Securities | 5 years | AA | 20% | None |
| County Pooled Investment Funds | N/A | None | None | None |
| Joint Powers Authority Pool | N/A | Multiple | None | 100% |
| California Local Agency Investment Fund | N/A | None | None | $65M |
| Voluntary Investment Program Fund | N/A | None | None | None |
| Supranational Obligations **(B)** | 5 years | AA | 15% | 15% |
| Public Bank Obligations | 5 years | None | None | None |

**(A)** 30% maximum % of portfolio is for deposits and certificates of deposit combined.

**(B)** Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB)

* Investments term authorized during SVCW Commissioner's Meeting on June 17, 2019.
Longer-term securities is only for US Government and CA Municipal Obligations.

**U.S. Treasuries, U.S. Agencies, and State/Local Agency obligations measure maximum maturity as <u>average</u> 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. 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. To limit loss exposure due to Credit Risk, the investment policy limits purchase 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, 2020, 9% of SVCW's cash was invested in California Asset Management Program (CAMP), 8% in agencies, 4% in commercial paper and corporate bonds, 10% in money market accounts, 68% in U.S. treasuries, and less than 1% in LAIF and municipal bonds and notes.

## 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, 2020, and 2019, outstanding balances for notes receivable were $18,145 and $19,850, respectively.

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

SVCW's capital assets consisted of the following as of June 30, 2020:

| Capital Assets | Balance July 1, 2019 | Additions | Adjustments/ Transfer | Balance June 30, 2020 |
|---|---|---|---|---|
| **Non-depreciable:** | | | | |
| **Land** | $ 1,282,081 | $ - | $ - | $ 1,282,081 |
| **Construction in Progress** | | | | |
| Stage 2 | 2,934,618 | - | - | 2,934,618 |
| General | 244,348,014 | 138,854,299 | (44,552,747) | 338,649,566 |
| Total Non-Depreciable | 248,564,713 | 138,854,299 | (44,552,747) | 342,866,265 |
| **Depreciable:** | | | | |
| Buildings and structures | 84,762,953 | 903,455 | - | 85,666,408 |
| Pipelines | 55,458,204 | 11,212,679 | - | 66,670,883 |
| Pump station | 7,473,953 | 1,148,038 | - | 8,621,991 |
| Machinery and equipment | 93,174,269 | 31,279,671 | - | 124,453,940 |
| Total Depreciable | 240,869,379 | 44,543,843 | - | 285,413,222 |
| **Less Accumulated Depreciation for:** | | | | |
| Buildings and structures | (40,879,912) | (2,592,019) | - | (43,471,931) |
| Pipelines | (11,583,832) | (1,938,033) | - | (13,521,865) |
| Pump station | (5,831,654) | (201,162) | - | (6,032,816) |
| Machinery and equipment | (39,722,575) | (4,310,537) | (12) | (44,033,124) |
| Total Accumulated Depreciation | (98,017,973) | (9,041,751) | (12) | (107,059,736) |
| Total Depreciable PPE - Net | 142,851,406 | 35,502,092 | (12) | 178,353,486 |
| Total PPE - Net | $ 391,416,119 | $ 174,356,391 | $ (44,552,759) | $ 521,219,751 |

Depreciation expense for the year ended June 30, 2020 and 2019 was $9,041,751 and $9,026,438, respectively.

## NOTE 6 - NONCURRENT LIABILITIES

SVCW's noncurrent liabilities consisted of the following as of June 30, 2020:

| Description | Balance July 01, 2019 | Additions | Deductions | Balance June 30, 2020 | Due Within One Year |
|---|---|---|---|---|---|
| Wastewater Revenue Bonds/Notes | $ 262,675,000 | $ 209,300,000 | $ 5,540,000 | $ 466,435,000 | $ 5,610,000 |
| Unamortized Premium | 24,711,308 | 16,128,658 | 4,167,599 | 36,672,367 | 4,167,599 |
| Note Payable (Direct Borrowing) | 51,431,246 | - | 1,887,870 | 49,543,376 | 1,925,999 |
| Net OPEB Liability | 276,571 | 687,312 | - | 963,883 | - |
| Net Pension Obligation | 13,507,192 | 1,545,954 | - | 15,053,146 | - |
| Compensated Absences | 933,043 | 202,365 | - | 1,135,408 | 1,135,408 |
| Total Noncurrent Liabilities | $ 353,534,360 | $ 227,864,289 | $ 11,595,469 | $ 569,803,180 | $ 12,839,006 |

### *Long-Term Debt*

SVCW's long-term debt consisted of the following as of June 30, 2020:

| | Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds/Notes Outstanding July 01, 2019 | Issued | Retirements | Bonds/Notes Outstanding June 30, 2020 |
|---|---|---|---|---|---|---|---|---|
| ***Bond/Notes*** | | | | | | | | |
| 2009 Bond | 2009 | 2039 | 1.74-8.1% | $ 55,855,000 | $ 1,305,000 | $ - | $ 1,305,000 | $ - |
| 2014 Bond | 2014 | 2044 | 3-5% | 60,000,000 | 55,020,000 | - | 1,160,000 | 53,860,000 |
| 2015 Bond | 2015 | 2045 | 2-5% | 70,200,000 | 67,855,000 | - | 830,000 | 67,025,000 |
| 2018 Bond | 2018 | 2049 | 3.125-5% | 140,955,000 | 138,495,000 | - | 2,245,000 | 136,250,000 |
| 2019 Notes Series A | 2019 | 2024 | 3% | 209,300,000 | - | 209,300,000 | - | 209,300,000 |
| Total Wastewater Revenue Bonds/Notes | | | | $ 536,310,000 | $ 262,675,000 | $ 209,300,000 | $ 5,540,000 | $ 466,435,000 |

### *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. On August 1, 2019, the bond was fully defeased.

### *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, 2020, 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.

***2019 Series A Wastewater Revenue Notes***

In August 2019, SVCW issued $209,300,000 in Revenue Notes. The Notes were issued to provide interim financing for the acquisition and construction of capital improvements to SVCW's wastewater system, capitalize interest on the Notes through maturity and pay costs of issuing the Notes. Concurrently, SVCW executed a WIFIA (Water Infrastructure Finance and Innovation Act) Loan Agreement with the United States Environmental Protection Agency (EPA) to finance these capital improvements. Proceeds of the WIFIA Loan are expected to be used by the Authority to pay the 2019 Notes at maturity or to optionally redeem all or a portion of the 2019 Notes to their maturity. The Notes are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting of payments made by the City of Redwood, the City of San Carlos, the City of Belmont and the West Bay Sanitary District (the "Participating Members"). Total principal amount will be due at maturity on March 1, 2024. Interest payments are payable semi-annually on March 1 and September 1.

The 2009, 2014, 2015, 2018 Wastewater Revenue Bonds and 2019 Wastewater Revenue Notes are general obligations of SVCW, payable solely from pledges of wastewater revenues from participating SVCW member agencies. The bonds and notes 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, 2020.

***Long-term Debt Service***

The debt service requirements for the bonds as of June 30, 2020 were as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2021 | $ 5,610,000 | $ 17,684,619 | $ 23,294,619 |
| 2022 | 5,890,000 | 17,398,619 | 23,288,619 |
| 2023 | 6,185,000 | 17,098,369 | 23,283,369 |
| 2024 | 215,800,000 | 16,782,869 | 232,582,869 |
| 2025 | 6,835,000 | 10,172,244 | 17,007,244 |
| 2026-2030 | 39,595,000 | 45,281,344 | 84,876,344 |
| 2031-2035 | 46,740,000 | 34,881,216 | 81,621,216 |
| 2036-2040 | 57,795,000 | 23,592,831 | 81,387,831 |
| 2041-2045 | 51,250,000 | 11,551,075 | 62,801,075 |
| 2046-2050 | 30,735,000 | 2,197,136 | 32,932,136 |
| 2051-2055 | - | - | - |
| Total | $ 466,435,000 | $ 196,640,322 | $ 663,075,322 |

***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 2020 credit received by SVCW totaled $594,468.

***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 $49,543,376 as of June 30, 2020. 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 $8,102,336 as of June 30, 2020. 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 $27,441,039 as of June 30, 2020. 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 was completed on August 1, 2019 and the total incurred expenditures will either be repaid by September 2030 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, 2020:

Notes Payable

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2021 | $ 1,925,999 | $ 704,599 | $ 2,630,599 |
| 2022 | 3,267,054 | 889,677 | $ 4,156,731 |
| 2023 | 3,327,622 | 829,109 | $ 4,156,731 |
| 2024 | 3,389,352 | 767,378 | $ 4,156,731 |
| 2025 | 3,452,268 | 704,463 | $ 4,156,731 |
| 2026-2030 | 18,248,237 | 2,535,415 | $ 20,783,653 |
| 2031-2035 | 12,256,214 | 937,908 | $ 13,194,122 |
| 2036-2039 | 3,676,630 | 99,564 | $ 3,776,194 |
| Total | $ 49,543,376 | $ 7,468,114 | $ 57,011,489 |

***Line of Credit***

SVCW has a $30,000,000 line of credit with Wells Fargo Bank, with an accordion feature for up to $65 million. 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 on June 30, 2020.

***WIFIA Loan***

In July 2019, SVCW entered into a Water Infrastructure Finance and Innovation Act (WIFIA) loan agreement with the United States Environmental Protection Agency (EPA) for an amount up to $218,000,000, which will become available on March 1, 2024. The loan proceeds will be used to refund the 2019 Series A Wastewater Notes, which was used to finance of the acquisition and construction of capital improvements to SVCW's wastewater system. The loan is payable solely from and secured solely by the revenues pledged under the indenture, consisting of payments made by the City of Redwood, the City of San Carlos, the City of Belmont and the West Bay Sanitary District (the "Participating Members”). Principal payment is due annually on March 1. Interest payments are due semi-annually on March 1 and September 1.

## 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, 2020 were as follows:

| Fund Description | Due From | Due To |
|---|---|---|
| Operations | $ 8,089,043 | $ 225,572 |
| Capital Improvement Program | - | 3,010,379 |
| Recycled Water | - | 12,151 |
| Self Insurance | 186,780 | - |
| Construction Stage 2 | 897,589 | - |
| Capital Improvements | 2,524,570 | - |
| Capital Improvement Program Reserve | - | 11,682,709 |
| Operating Reserve | 3,232,828 | - |
| Totals | $ 14,930,810 | $ 14,930,811 |

### *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, 2020 fiscal year were as follows:

| Fund Description | Transfers In | Transfers Out |
|---|---|---|
| Operations | $ 44,543,844 | $ - |
| Capital Improvement Program | - | 42,831,803 |
| Capital Improvements | - | 1,712,041 |
| Totals | $ 44,543,844 | $ 44,543,844 |

## 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 employers 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 on June 30, 2018, are summarized as follows:

| | **Miscellaneous** | | |
|---|---|---|---|
| | **Tier 1** | **Tier 2** | **PEPRA** |
| Membership date | Prior to July 1, 2011 | July 1, 2011 - December 31, 2012 | On/After January 1, 2013 |
| 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 | 1.426% to 2.418% | 1.092% to 2.418% | 1.000% to 2.500% |
| Required employee contribution rates | 7.000% | 7.000% | 6.750% |
| Required employer contribution rates | 10.221% | 8.081% | 6.985% |

**Employees Covered** - On June 30, 2020, the following employees were covered by the benefit terms for the Plans:

| | Miscellaneous |
|---|---|
| Active | 86 |
| Transferred | 22 |
| Separated | 24 |
| Retired | 78 |
| Total | 210 |

**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, 2020, SVCW contributed $1,916,618 into the Plans.

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

As of June 30, 2020, the Agency reported net pension liabilities for its proportionate shares of the net pension liability was $15,053,146.

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, 2019, 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, 2018 rolled forward to June 30, 2019 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, 2019 and 2020 was as follows:

| | Miscellaneous | Safety | Total |
|---|---|---|---|
| Proportion - June 30, 2019 | 0.14017% | 0.00000% | 0.14017% |
| Proportion - June 30, 2020 | 0.14690% | 0.00000% | 0.14690% |
| Change - Increase/(Decrease) | 0.00673% | 0.00000% | 0.00673% |

For the year ended June 30, 2020, the Agency recognized pension expense of $3,576,854. On June 30, 2020, 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 or other inputs | $ 717,804 | $ (254,455) |
| Difference between Expected and Actual Experience | 1,045,504 | (81,005) |
| Diffrences between Projected and Actual Investments Earnings | - | (263,176) |
| Change in proportion and differences between employer contributions and proportionate share of contributions | - | (768,058) |
| Change in Employer's Propotion | 786,602 | - |
| Pension Contributions Made Subsequent to Measurement Date | 1,916,618 | - |
| Total | $ 4,466,528 | $ (1,366,694) |

The Agency reported $1,916,618 as deferred outflows of resources related to contributions after 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:

| Year Ended June 30 | Annual Amortization |
|---|---|
| 2021 | $ 1,104,783 |
| 2022 | (93,751) |
| 2023 | 119,004 |
| 2024 | 53,180 |
| Total | $ 1,183,216 |

**Actuarial Assumptions** - The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

| | Miscellaneous |
|---|---|
| Valuation Date | December 31, 2018 |
| Measurement Date | December 31, 2019 |
| Actuarial Cost Method | Entry Age Actuarial Cost Method |
| Amortization Method | Level percent of payroll |
| Actuarial Assumptions: | |
| Discount Rate | 7.00% |
| Inflation Rate | 2.75% |
| Payroll Growth | 2.75% (1) |
| Projected Salary Increase | 3.75% - 15.25% |
| Cost of Living Adjustments | 2.75% |
| Investment Rate of Return | 7.00% |
| Mortality | RP-2014 Healthy Annuitant Mortality Table |

(1) Plus "across the board" real salary increases of 0.5% per year

**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 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 considered 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 rounded 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 equal 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.

| Asset Class (a) | Assumed Asset Allocation | Real Return Years 1 - 10 (b) | Real Return Years 11+ (c) |
|---|---|---|---|
| Global Equity | 50% | 4.80% | 5.98% |
| Fixed Income | 28% | 1.00% | 2.62% |
| Inflation Assets | 0% | 0.77% | 1.81% |
| Private Equity | 8% | 6.30% | 7.23% |
| Real Assets | 13% | 3.75% | 4.93% |
| Liquidity | 1% | 0.00% | -0.92% |
| Total | 100% | | |

*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 | $ 24,292,968 |
| Current Discount Rate | 7.15% |
| Net Pension Liability | $ 15,053,146 |
| 1% Increase | 8.15% |
| Net Pension Liability | $ 7,426,326 |

**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.

SVCW joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans in the fiscal year 2010-11. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703. (This CERBT paragraph is newly added. Please provide highlighted information)

***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***

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

| | |
|---|---|
| Active employees | 85 |
| Inactive employees | 41 |
| **Total employees** | 126 |

***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 $1,016,333. Total contributions included in the measurement period were $841,064. The actuarially determined contribution for the measurement period was $502,972. The Authority's contributions were 7.78% of payroll during the fiscal year ended June 30, 2020. 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, 2018 |
| **Measurement Date:** | June 30, 2019 |
| **Actuarial Cost Method:** | Entry-Age Normal<br>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<br>Rx PA Misc 2% @ 60<br>Rx PA Misc 2% @ 60 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, 2019 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 (valuation date) for the fiscal year ended June 30, 2020 (reporting date). The Changes in Assumptions is to recognize the Implied Subsidy associated with future medical premiums, which increased SVCW's actuarial accrued liability. The following summarizes the changes in the net OPEB liability during the year ended June 30, 2020:

| **Fiscal Year Ended June 30, 2020 (Measurement Date June 30, 2019)** | **Total OPEB Liability** | **Plan Fiduciary Net Position** | **Net OPEB Liability (Asset)** |
|---|---|---|---|
| **Balance at June 30, 2019** | $ 7,079,157 | $ 6,800,620 | $ 278,537 |
| Service cost | 38,457 | - | 38,457 |
| Interest in Total OPEB Liability | 484,027 | - | 484,027 |
| Employer contributions to trust | - | 450,000 | (450,000) |
| Employer contributions as benefit payments | - | 391,064 | (391,064) |
| Expected investment income | - | 491,741 | (491,741) |
| Administrative expenses | - | (1,501) | 1,501 |
| Benefit payments | (391,064) | (391,064) | - |
| Investment Gain/Losses | - | (47,577) | 47,577 |
| Experience Gains/Losses | 493,347 | - | 493,347 |
| Changes in Assumptions | 929,611 | - | 929,611 |
| Expected Minus Benefit Payments | 23,631 | - | 23,631 |
| **Net changes** | 1,578,009 | 892,663 | 685,346 |
| **Balance at June 30, 2019** | $ 8,657,166 | $ 7,693,283 | $ 963,883 |

| | |
|---|---|
| Covered Employee Payroll at Measurement Date | $ 12,259,105 |
| Total OPEB Liability as a % of covered Employee payroll | 70.62% |
| Plan Fid. Net Position as a % of Total OPEB Liability | 88.87% |
| Service cost as a % of covered Employee payroll | 0.31% |
| Net OPEB Liability as a % of covered payroll | 7.86% |

***Deferred Inflows and Outflows of Resources***

On June 30, 2020, 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 | $ 456,864 | $ - |
| Difference between actual and expected earnings | 8,261 | - |
| Change in assumptions | 821,517 | - |
| OPEB contribution subsequent to measurement date | 1,016,333 | - |
| **Totals** | $ 2,302,975 | $ - |

The total $1,016,333 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, 2021.

***OPEB Expense***

The following summarizes the OPEB expense by source during the year ended June 30, 2020:

| | | |
|---|---|---|
| Service cost | $ | 38,457 |
| Interest in TOL | | 484,027 |
| Expected investment income | | (491,741) |
| Difference between actual and expected earnings | | 108,094 |
| Other (PPA of FNP, Per Actuary) | | 59,696 |
| Administrative expenses | | 1,501 |
| **OPEB Expense** | **$** | **200,034** |

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2020:

| | | |
|---|---|---|
| Net OPEB liability ending | $ | 963,883 |
| Net OPEB liability begining | | (278,537) |
| Change in net OPEB liability | | 685,346 |
| Employer contributions and implicit subsidy | | 801,331 |
| **OPEB Expense** | **$** | **200,035** |

***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) | $ 2,055,673 | $ 963,883 | $ 73,390 |

***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) | $ 47,338 | $ 963,883 | $ 2,069,402 |

## 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, $11^{th}$ 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 $398,890,585 on June 30, 2020.

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 $1,518,738 during the year for two lease agreements.

# REQUIRED SUPPLEMENTARY INFORMATION

**SILICON VALLEY CLEAN WATER**
**Cost-Sharing Multiple Employer Defined Benefit Retirement Plan**
**As of fiscal year ending June 30, 2020**
**SCHEDULE OF CONTRIBUTIONS**
**Last 10 Years***

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Actuarially determined contribution | $ 1,916,618 | $ 1,612,511 | $ 1,470,709 | $ 1,251,217 | $ 1,130,159 | $ 1,033,248 |
| Contributions in relation to the actuarially determined contributions | 1,916,618 | 1,612,511 | 1,470,709 | 1,251,217 | 1,130,159 | 1,033,248 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - |
| Covered payroll | $ 11,799,491 | $ 11,073,314 | $ 11,882,052 | $ 10,137,714 | $ 9,454,067 | $ 9,115,942 |
| Contributions as a percentage of covered-employee payroll | 16.24% | 14.56% | 12.38% | 12.34% | 11.95% | 11.33% |

**Notes to Schedule**

Valuation Date: June 30, 2019

Assumptions Used:
Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
3.8 Years Remaining Amortization Period
Inflation Assumed at 2.875%
Investment Rate of Returns set at 7.375%
CalPERS mortality table using 15 years of membership data for all funds

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

**SILICON VALLEY CLEAN WATER**
**Cost-Sharing Multiple Employer Defined Benefit Retirement Plan**
**As of fiscal year ending June 30, 2020**
**PROPORTIONATE SHARE OF NET PENSION LIABILITY**
**Last 10 Fiscal Years[1]**

**Miscellaneous Plan**

| Fiscal Year Ended | **2020** | **2019** | **2018** | **2017** | **2016** | **2015** |
|---|---|---|---|---|---|---|
| Proportion of Net Pension Liability | 0.37591% | 0.35840% | 0.34911% | 0.33211% | 0.30498% | 0.32474% |
| Proportionate Share of Net Pension Liability | $15,053,146 | $13,507,192 | $13,762,187 | $11,536,951 | $8,367,040 | $8,025,843 |
| Covered Payroll | $11,073,314 | $11,882,052 | $10,137,714 | $9,454,067 | $9,115,492 | $8,842,027 |
| ıate Share of NPL as a % of Covered Payroll | 135.94% | 113.68% | 135.75% | 122.03% | 91.79% | 90.77% |
| Plan's Fiduciary Net Position as a % of the TPL | 75.26% | 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, 2020

| | Fiscal Year Ended June 30, 2018 | 2019 | 2020 |
|---|---|---|---|
| Actuarially determined contribution (ADC) | $ 135,456 | $ 74,614 | $ 502,972 |
| Less: actual contribution in relation to ADC | (763,957) | (841,064) | (1,016,333) |
| Contribution deficiency (excess) | $ (628,501) | $ (766,450) | $ (513,361) |
| | | | |
| Covered payroll for the fiscal year | $ 11,176,980 | $ 12,259,105 | $ 13,063,649 |
| Contributions as a percentage of covered payroll | 6.84% | 6.86% | 7.78% |

**Notes to Schedule:**

*Assumptions and Methods*

| | |
|---|---|
| Valuation Date: | June 30, 2019 |
| Measurement Date: | June 30, 2019 |
| 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<br>Rx PA Misc 2% @ 60<br>Rx PA Misc 2% @ 60 min age 52 |

*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, 2020

| | Fiscal Year Ended June 30, 2018 | 2019 | 2020 |
|---|---|---|---|
| **Total OPEB liability** | | | |
| Service cost | $ 36,426 | $ 37,428 | $ 38,457 |
| Interest | 461,630 | 473,085 | 484,027 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | - | - | 516,978 |
| Changes of assumptions | - | - | 929,611 |
| Benefit payments | (328,838) | (341,991) | (391,064) |
| Expected Minus Actual Benefit | - | - | |
| Net change in Total OPEB Liability | 169,218 | 168,522 | 1,578,009 |
| Total OPEB Liability - beginning | 6,741,417 | 6,910,635 | 7,079,157 |
| Total OPEB Liability - ending | $ 6,910,635 | $ 7,079,157 | $ 8,657,166 |
| **Plan fiduciary net position** | | | |
| Employer contributions | $ 748,838 | $ 763,957 | $ 841,064 |
| Employer implicit subsidy | - | - | - |
| Employee contributions | - | - | - |
| Net investment income | 547,183 | 477,679 | 444,164 |
| Difference between estimated and actual earnings | - | - | - |
| Benefit payments | (328,838) | (341,991) | (391,064) |
| Implicit subsidy fulfilled | - | - | - |
| Other | - | 4,017 | - |
| Administrative expense | (4,578) | (11,080) | (1,501) |
| Net change in plan fiduciary net position | 962,605 | 892,582 | 892,663 |
| Plan fiduciary net position - beginning | 4,947,399 | 5,910,004 | 6,802,586 |
| Plan fiduciary net position - ending | $ 5,910,004 | $ 6,802,586 | $ 7,695,249 |
| Net OPEB liability (asset) | $ 1,000,631 | $ 276,571 | $ 961,917 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 85.52% | 96% | 89% |
| Covered employee payroll for the plan | $ 10,877,839 | $ 11,176,980 | $ 12,259,105 |
| Net OPEB Liability as a percentage of covered Employee payroll | 9.20% | 2.47% | 7.85% |
| Total OPEB Liability as a percentage of covered Employee payroll | 63.53% | 63.34% | 70.62% |

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, 2020

| Assets | Operating Reserve | Capital Improvement Program Reserve | Capital Improvements | Construction Stage 2 |
|---|---|---|---|---|
| Current Assets: | | | | |
| Cash and investments | $ 3,826,640 | $ 16,877,098 | $ - | $ 13,764,971 |
| Cash restricted for debt service | - | 4,156,730 | - | - |
| Accounts receivable | 415 | 7,875 | 13,264 | 916,941 |
| Interest receivable | - | - | - | - |
| Employee notes receivable | - | - | - | - |
| Due from other funds | 3,232,828 | - | 2,524,570 | 897,589 |
| Inventory | - | - | - | - |
| Prepaid expenses | - | - | - | - |
| Total Current Assets | 7,059,883 | 21,041,703 | 2,537,834 | 15,579,501 |
| 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 | - | - | 6,911,758 | - |
| Total capital assets - net | - | - | 6,911,758 | 2,934,618 |
| Total Noncurrent Assets | - | - | 6,911,758 | 2,934,618 |
| Total Assets | $ 7,059,883 | $ 21,041,703 | $ 9,449,592 | $ 18,514,119 |
| **Deferred Outflows of Resources** | | | | |
| Pension adjustments | $ - | $ - | $ - | $ - |
| OPEB adjustments | - | - | - | - |
| Deferred Loss on Defeasance | - | - | - | - |
| Total Deferred Outflows of Resources | $ - | $ - | $ - | $ - |
| **Liabilities** | | | | |
| Current Liabilities: | | | | |
| Accounts payable | $ - | $ - | $ 404,397 | $ - |
| Accrued payroll and employee benefits | - | - | - | - |
| Accrued interest payable | - | - | - | - |
| Due to other funds | - | 11,682,709 | - | - |
| Unearned revenue | 753 | 45,363 | 39,178 | - |
| Compensated absences due within one year | | | | |
| Noncurrent liabilities due within one year | - | - | - | - |
| Total Current Liabilities | 753 | 11,728,072 | 443,575 | - |
| Long term debt due in more than one year | | - | - | - |
| Net pension liabilities | | - | - | - |
| Net OPEB liabilities | - | - | - | - |
| Total Liabilities | $ 753 | $ 11,728,072 | $ 443,575 | $ - |
| **Deferred inflows of Resources** | | | | |
| Pension adjustments | $ - | $ - | $ - | $ - |
| OPEB adjustments | - | - | - | - |
| Total Deferred Inflows of Resources | $ - | $ - | $ - | $ - |
| **Net Position** | | | | |
| Net Investment in Capital Assets | $ - | $ - | $ 6,911,758 | $ 2,934,618 |
| Restricted for: | | | | |
| Debt service | - | 4,156,730 | - | - |
| Capital projects | - | - | - | - |
| Retiree health benefits | - | - | - | - |
| Unrestricted | 7,059,130 | 5,156,901 | 2,094,259 | 15,579,501 |
| Total Net Position | $ 7,059,130 | $ 9,313,631 | $ 9,006,017 | $ 18,514,119 |

(Continued)

**Silicon Valley Clean Water**
Combining Schedule of Net Position
Enterprise Funds
June 30, 2020

| Assets | Self Insurance | Recycled Water | Capital Improvement Program | Operation | Total |
|---|---|---|---|---|---|
| Current Assets: | | | | | |
| Cash and investments | $ - | $ - | $ 139,072,784 | $ 1,666,937 | $ 175,208,430 |
| Cash restricted for debt service | - | - | - | - | 4,156,730 |
| Accounts receivable | - | 63,443 | - | 566,571 | 1,568,509 |
| Interest receivable | - | - | - | 18,931 | 18,931 |
| Employee notes receivable | - | - | - | 18,145 | 18,145 |
| Due from other funds | 186,780 | - | - | 8,089,044 | 14,930,811 |
| Inventory | - | - | - | 1,865,149 | 1,865,149 |
| Prepaid expenses | - | - | - | 103,796 | 103,796 |
| Total Current Assets | 186,780 | 63,443 | 139,072,784 | 12,328,573 | 197,870,501 |
| Noncurrent Assets: | | | | | |
| Property held for resale | - | - | - | - | - |
| Capital assets: | | | | | |
| Depreciable capital assets - net | - | - | - | 178,353,486 | 178,353,486 |
| Non depreciable capital assets: | | | | | |
| Land | - | - | - | 1,282,081 | 1,282,081 |
| Construction in progress: | | | | | |
| Stage 2 | - | - | - | - | 2,934,618 |
| General | - | - | 331,737,808 | - | 338,649,566 |
| Total capital assets - net | - | - | 331,737,808 | 179,635,567 | 521,219,751 |
| Total Noncurrent Assets | - | - | 331,737,808 | 179,635,567 | 521,219,751 |
| Total Assets | $ 186,780 | $ 63,443 | $ 470,810,592 | $ 191,964,140 | $ 719,090,252 |
| **Deferred Outflows of Resources** | | | | | |
| Pension adjustments | $ - | $ - | $ - | $ 4,466,528 | $ 4,466,528 |
| OPEB adjustments | - | - | - | 2,302,975 | 2,302,975 |
| Deferred Loss on Defeasance | - | - | 4,777,794 | - | 4,777,794 |
| Total Deferred Outflows of Resources | $ - | $ - | $ 4,777,794 | $ 6,769,503 | $ 11,547,297 |
| **Liabilities** | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | $ - | $ - | $ 10,750,438 | $ 1,066,747 | $ 12,221,582 |
| Accrued payroll and employee benefits | - | - | - | 1,064,043 | 1,064,043 |
| Accrued interest payable | - | - | 7,220,362 | - | 7,220,362 |
| Due to other funds | - | 12,151 | 3,010,379 | 225,572 | 14,930,811 |
| Unearned revenue | - | - | - | 833,598 | 918,892 |
| Compensated absences due within one year | | | | 1,135,408 | 1,135,408 |
| Noncurrent liabilities due within one year | - | - | 11,703,599 | - | 11,703,599 |
| Total Current Liabilities | - | 12,151 | 32,684,778 | 4,325,368 | 49,194,697 |
| Long term debt due in more than one year | - | - | 540,947,144 | - | 540,947,144 |
| Net pension liabilities | - | - | - | 15,053,146 | 15,053,146 |
| Net OPEB liabilities | - | - | - | 963,883 | 963,883 |
| Total Liabilities | $ - | $ 12,151 | $ 573,631,922 | $ 20,342,397 | $ 606,158,870 |
| **Deferred inflows of Resources** | | | | | |
| Pension adjustments | $ - | $ - | $ - | $ 1,366,694 | $ 1,366,694 |
| OPEB adjustments | - | - | - | - | - |
| Total Deferred Inflows of Resources | $ - | $ - | $ - | $ 1,366,694 | $ 1,366,694 |
| **Net Position** | | | | | |
| Net Investment in Capital Assets | $ - | $ - | $ (81,840,151) | $ 179,635,567 | $ 107,641,792 |
| Restricted for: | | | | | |
| Debt service | - | - | - | - | 4,156,730 |
| Capital projects | - | - | - | - | - |
| Retiree health benefits | - | - | - | - | - |
| Unrestricted | 186,780 | 51,292 | (16,203,385) | (2,611,015) | 11,313,463 |
| Total Net Position | $ 186,780 | $ 51,292 | $ (98,043,536) | $ 177,024,552 | $ 123,111,985 |

(Concluded)

**Silicon Valley Clean Water**
Combining Schedule of Activities and Changes in Net Position
Enterprise Funds
For the Fiscal Year Ended June 30, 2020

| | Operating Reserve | Capital Improvement Program Reserve | Capital Improvements | Construction Stage 2 |
|---|---|---|---|---|
| **Operating Revenues:** | | | | |
| Member contributions for services | $ - | $ - | $ - | $ - |
| Member contributions for cash reserves | 52,572 | 1,000,008 | 1,684,332 | 935,920 |
| Member contributions for debt service | - | - | - | - |
| Member contributions for Capital Improvements | - | - | - | - |
| Sources control charges | - | - | - | - |
| Miscellaneous revenues | - | - | 6,809 | - |
| Total operating revenues | 52,572 | 1,000,008 | 1,691,141 | 935,920 |
| **Operating Expenses:** | | | | |
| Operations | - | - | - | - |
| Maintenance | - | - | 46,652 | - |
| Laboratory | - | - | - | - |
| Environmental services | - | - | - | - |
| Engineering | - | - | 83 | - |
| Information systems | - | - | - | - |
| Safety | - | - | - | - |
| Administration | 4,100 | 16,978 | - | 11,683 |
| Depreciation | - | - | - | - |
| Total operating expenses | 4,100 | 16,978 | 46,735 | 11,683 |
| **Operating Income (Loss)** | 48,472 | 983,030 | 1,644,406 | 924,237 |
| **Nonoperating Revenues (Expenses):** | | | | |
| Grants | - | - | - | - |
| Other revenue (expense) | - | - | - | - |
| Interest Income: | | | | |
| Operations fund | - | - | - | - |
| Stage 2 capacity fund | - | - | - | 325,638 |
| Capital improvement reserve fund | - | 553,691 | - | - |
| Operating reserve fund | 77,908 | - | - | - |
| Capital improvement fund | - | - | - | - |
| Net increase (decrease) in fair value of investments | 83,225 | 760,422 | - | 557,240 |
| Interest expense | - | - | - | - |
| Premium amortization | - | - | - | - |
| Gain (loss) on disposal of fixed assets | - | - | - | - |
| Total nonoperating revenues (expenses) | 161,133 | 1,314,113 | - | 882,878 |
| Income (Loss) Before Transfers | 209,605 | 2,297,143 | 1,644,406 | 1,807,115 |
| Transfers In | - | - | - | - |
| Transfers Out | - | - | (1,712,041) | - |
| Change in Net Position | 209,605 | 2,297,143 | (67,635) | 1,807,115 |
| Beginning Net Position | 6,849,525 | 7,016,488 | 9,073,652 | 16,707,004 |
| Prior Period Adjustment | - | - | - | - |
| Ending Net Position | $ 7,059,130 | $ 9,313,631 | $ 9,006,017 | $ 18,514,119 |

(Continued)

**Silicon Valley Clean Water**
Combining Schedule of Activities and Changes in Net Position
Enterprise Funds
For the Fiscal Year Ended June 30, 2020

| | Self Insurance | Recycled Water | Capital Improvement Program | Operation | Total |
|---|---|---|---|---|---|
| **Operating Revenues:** | | | | | |
| Member contributions for services | $ - | $ 243,443 | $ - | $ 25,209,276 | $ 25,452,719 |
| Member contributions for cash reserves | - | - | - | - | 3,672,832 |
| Member contributions for debt service | - | - | 20,488,973 | - | 20,488,973 |
| Member contributions for Capital Improvements | - | - | 12,969,079 | - | 12,969,079 |
| Sources control charges | - | - | - | 61,964 | 61,964 |
| Miscellaneous revenues | - | - | - | 372,367 | 379,176 |
| Total operating revenues | - | 243,443 | 33,458,052 | 25,643,607 | 63,024,743 |
| **Operating Expenses:** | | | | | |
| Operations | - | 105,556 | - | 10,072,540 | 10,178,096 |
| Maintenance | - | 102,277 | - | 6,689,721 | 6,838,650 |
| Laboratory | - | 11,756 | - | 1,979,156 | 1,990,912 |
| Environmental services | - | - | - | 1,051,499 | 1,051,499 |
| Engineering | - | - | 6,867 | 879,261 | 886,211 |
| Information systems | - | - | - | 1,650,921 | 1,650,921 |
| Safety | - | - | - | 451,704 | 451,704 |
| Administration | - | - | 1,212,433 | 4,427,579 | 5,672,773 |
| Depreciation | - | - | - | 9,041,764 | 9,041,764 |
| Total operating expenses | - | 219,589 | 1,219,300 | 36,244,145 | 37,762,530 |
| **Operating Income (Loss)** | - | 23,854 | 32,238,752 | (10,600,538) | 25,262,213 |
| **Nonoperating Revenues (Expenses):** | | | | | |
| Grants | - | - | - | 217,655 | 217,655 |
| Other revenue (expense) | - | - | - | 763,713 | 763,713 |
| Interest Income: | | | | | |
| Operations fund | - | - | - | 187,022 | 187,022 |
| Stage 2 capacity fund | - | - | - | - | 325,638 |
| Capital improvement reserve fund | - | - | - | - | 553,691 |
| Operating reserve fund | - | - | - | - | 77,908 |
| Capital improvement fund | - | - | 3,369,063 | - | 3,369,063 |
| Net increase (decrease) in fair value of investments | - | - | 1,475,512 | (16,747) | 2,859,652 |
| Interest expense | - | - | (19,603,899) | - | (19,603,899) |
| Premium amortization | - | - | 4,167,599 | - | 4,167,599 |
| Gain (loss) on disposal of fixed assets | - | - | - | 170,281 | 170,281 |
| Total nonoperating revenues (expenses) | - | - | (10,591,725) | 1,321,924 | (6,911,677) |
| Income (Loss) Before Transfers | - | 23,854 | 21,647,027 | (9,278,614) | 18,350,536 |
| Transfers In | - | - | - | 44,543,844 | 44,543,844 |
| Transfers Out | - | - | (42,831,803) | - | (44,543,844) |
| Change in Net Position | - | 23,854 | (21,184,776) | 35,265,230 | 18,350,536 |
| Beginning Net Position | 186,780 | 27,438 | (76,858,760) | 141,759,322 | 104,761,449 |
| Prior Period Adjustment | - | - | | - | - |
| Ending Net Position | $ 186,780 | $ 51,292 | $ (98,043,536) | $ 177,024,552 | $ 123,111,985 |

(Concluded)

**Silicon Valley Clean Water**
Combining Schedule of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2020

| | Operating Reserve | Capital Improvement Program Reserve | Capital Improvements | Construction Stage 2 |
|---|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | | |
| Cash received from member agencies | $ 52,572 | $ 1,000,008 | $ 1,684,332 | $ 881,346 |
| Cash paid to suppliers for goods and services and employees for services | (4,177) | 12,635 | 285,410 | (11,683) |
| Other cash received (paid) | - | - | 6,809 | - |
| Net Cash Provided (Used) by Operating Activities | 48,395 | 1,012,643 | 1,976,551 | 869,663 |
| **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 | 2,246 | (18,223) | 3,784,177 | (11,421) |
| Interest paid on capital debt | - | - | - | - |
| Principal paid on capital debt | - | - | - | - |
| Proceeds from long-term debt | - | - | - | - |
| Cash received on sale of capital assets | - | - | - | - |
| Purchases and construction of capital assets | - | - | (5,760,728) | - |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 2,246 | (18,223) | (1,976,551) | (11,421) |
| **Cash Flows from Investing Activities:** | | | | |
| Investment income | 161,134 | 1,314,113 | - | 882,878 |
| Net Cash Provided (Used) by Investing Activities | 161,134 | 1,314,113 | - | 882,878 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 211,775 | 2,308,533 | - | 1,741,120 |
| Cash and Cash Equivalents Beginning | 3,614,865 | 18,725,295 | - | 12,023,851 |
| Cash and Cash Equivalents Ending | $ 3,826,640 | $ 21,033,828 | $ - | $ 13,764,971 |
| **Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:** | | | | |
| Operating Income (Loss) | $ 48,472 | $ 983,030 | $ 1,644,406 | $ 924,237 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation | - | - | - | - |
| Net change in: | | | | |
| Accounts receivable | (415) | (7,875) | (13,264) | (54,574) |
| Employee notes receivable | | - | - | - |
| Inventory | - | - | - | - |
| Prepaid expenses | - | - | - | - |
| Deferred outflows of resources for benefits | - | - | - | - |
| Accounts payable | - | - | 319,495 | - |
| Accrued payroll and employee benefits | - | - | - | - |
| Unearned revenue | 338 | 37,488 | 25,914 | - |
| Deferred inflows of resources for benefits | - | - | - | - |
| Net Cash Provided (Used) by Operating Activities | $ 48,395 | $ 1,012,643 | $ 1,976,551 | $ 869,663 |
| **Noncash Transactions:** | | | | |
| Changes in fair values of investments | $ 83,225 | $ 760,422 | $ - | $ 557,240 |
| Noncash transfers of capital assets | $ - | $ - | $ (1,712,041) | $ - |

(Continued)

**Silicon Valley Clean Water**
Combining Schedule of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2020

| | Self Insurance | Recycled Water | Capital Improvement Program | Operation | Total |
|---|---|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | | | |
| Cash received from member agencies | $ - | $ 243,443 | $ 33,458,052 | $ 25,209,276 | $ 62,529,029 |
| Cash paid to suppliers for goods and services and employees for services | - | (244,468) | (10,780,008) | (24,692,821) | (35,435,112) |
| Other cash received (paid) | - | - | - | 434,331 | 441,140 |
| Net Cash Provided (Used) by Operating Activities | - | (1,025) | 22,678,044 | 950,786 | 27,535,057 |
| **Cash Flows from Capital and Related Financing Activities:** | | | | | |
| Cash received from member agencies other than for services | - | - | - | 763,713 | 763,713 |
| Cash received from grants | - | - | - | 217,655 | 217,655 |
| Contributions (to) from other funds | - | 1,025 | 7,669,323 | (11,427,127) | - |
| Interest paid on capital debt | - | - | (19,603,899) | - | (19,603,899) |
| Principal paid on capital debt | - | - | (7,427,870) | - | (7,427,870) |
| Proceeds from long-term debt | - | - | 225,428,658 | - | 225,428,658 |
| Cash received on sale of capital assets | - | - | - | 170,281 | 170,281 |
| Purchases and construction of capital assets | - | - | (129,795,603) | - | (135,556,331) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | - | 1,025 | 76,270,609 | (10,275,478) | 63,992,207 |
| **Cash Flows from Investing Activities:** | | | | | |
| Investment income | - | - | 5,673,140 | 170,275 | 8,201,540 |
| Net Cash Provided (Used) by Investing Activities | - | - | 5,673,140 | 170,275 | 8,201,540 |
| Net Increase (Decrease) in Cash and Cash Equivalents | - | - | 104,621,793 | (9,154,417) | 99,728,804 |
| Cash and Cash Equivalents Beginning | - | - | 34,450,991 | 10,821,354 | 79,636,356 |
| Cash and Cash Equivalents Ending | $ - | $ - | $ 139,072,784 | $ 1,666,937 | $ 179,365,160 |
| **Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:** | | | | | |
| Operating Income (Loss) | $ - | $ 23,854 | $ 32,238,752 | $ (10,600,538) | $ 25,262,213 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | |
| Depreciation | - | - | - | 9,041,764 | 9,041,764 |
| Net change in: | | | | | |
| Accounts receivable | - | (2,068) | 1,105,390 | (160,261) | 866,933 |
| Employee notes receivable | - | - | - | 1,705 | 1,705 |
| Inventory | - | - | - | 230,141 | 230,141 |
| Prepaid expenses | - | - | - | 319,529 | 319,529 |
| Deferred outflows of resources for benefits | - | - | (4,428,965) | (1,507,198) | (5,936,163) |
| Accounts payable | - | (22,791) | (6,237,133) | 305,175 | (5,635,254) |
| Accrued payroll and employee benefits | - | (20) | - | 2,617,385 | 2,617,365 |
| Unearned revenue | - | - | - | 583,248 | 646,988 |
| Deferred inflows of resources for benefits | - | - | - | 119,836 | 119,836 |
| Net Cash Provided (Used) by Operating Activities | $ - | $ (1,025) | $ 22,678,044 | $ 950,786 | $ 27,535,057 |
| **Noncash Transactions:** | | | | | |
| Changes in fair values of investments | $ - | $ - | $ 1,475,512 | $ (16,747) | $ 2,859,652 |
| Noncash transfers of capital assets | $ - | $ - | $ (42,831,803) | $ 44,543,844 | $ - |

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# Silicon Valley Clean Water

Analysis of Net Position
Supplemental Schedule
For the Year Ended June 30, 2020

| Fund / Location | Belmont | Redwood City | San Carlos | West Bay Sanitary District | Total |
|---|---|---|---|---|---|
| **Operations (Fund 18)** | | | | | |
| Balance at June 30, 2019 | $ 12,605,098 | $ 69,676,067 | $ 20,361,655 | $ 38,492,955 | $ 141,135,777 |
| Member Agency Contributions | 3,004,200 | 11,999,292 | 3,341,412 | 6,864,372 | 25,209,276 |
| Other Miscellaneous Revenue | 49,383 | 225,286 | 60,198 | 99,461 | 434,329 |
| Grant Revenue | 24,747 | 112,897 | 30,167 | 49,843 | 217,655 |
| Unrealized Gain / (Loss) on Investments | (1,904) | (8,687) | (2,321) | (3,835) | (16,747) |
| Interest Income | 22,050 | 91,660 | 24,163 | 49,149 | 187,022 |
| Capitalized Projects Transferred from other Funds | 4,209,393 | 21,634,945 | 6,743,938 | 11,955,568 | 44,543,844 |
| Gain / (Loss) on Asset Disposal | 16,092 | 82,705 | 25,781 | 45,703 | 170,281 |
| Operating & Maintenance Costs | (2,997,807) | (13,663,293) | (3,639,606) | (6,627,937) | (26,928,643) |
| Depreciation Expenditures | (854,447) | (4,391,585) | (1,368,923) | (2,426,809) | (9,041,764) |
| Balance at June 30, 2020 | $ 16,076,806 | $ 85,759,289 | $ 25,576,464 | $ 48,498,470 | $ 175,911,029 |
| **Retiree Medical Health Benefits Reserve (Fund 12)** | | | | | |
| Balance at June 30, 2019 | $ 79,962 | $ 280,646 | $ 159,511 | $ 103,428 | $ 623,545 |
| Contributions to Fund 12 | 86,834 | 396,137 | 105,850 | 174,890 | 763,712 |
| Expenditures | (31,124) | (141,987) | (37,940) | (62,686) | (273,736) |
| Balance at June 30, 2020 | $ 135,672 | $ 534,796 | $ 227,421 | $ 215,632 | $ 1,113,520 |
| **Capital Improvement Program Reserve (Fund 13)** | | | | | |
| Balance at June 30, 2019 | $ 663,049 | $ 3,407,894 | $ 1,062,308 | $ 1,883,237 | $ 7,016,487 |
| Member Contributions - Replacement Reserve | 94,500 | 485,700 | 151,404 | 268,404 | 1,000,008 |
| Change in Fair Value, Unrealized Gain/(Loss) | 71,860 | 369,337 | 115,128 | 204,097 | 760,422 |
| Fees | (1,604) | (8,245) | (2,570) | (4,556) | (16,976) |
| Interest Income | 52,324 | 268,928 | 83,829 | 148,611 | 553,691 |
| Balance at June 30, 2020 | $ 880,128 | $ 4,523,613 | $ 1,410,098 | $ 2,499,793 | $ 9,313,631 |
| **Construction Stage 2 (Fund 15)** | | | | | |
| Balance at June 30, 2019 | $ 566,147 | $ 9,394,025 | $ 2,839,864 | $ 3,906,967 | $ 16,707,003 |
| Member Purchases of Capacity | - | 434,086 | 501,834 | - | 935,920 |
| Interest Income | 30,773 | 158,162 | 49,302 | 87,401 | 325,638 |
| Interest / (Unrealized Loss) Investments | 52,659 | 270,652 | 84,366 | 149,563 | 557,240 |
| Fees | (1,104) | (5,673) | (1,768) | (3,135) | (11,681) |
| Capitalized Projects Transferred to Fund 18 | - | - | - | - | - |
| Balance at June 30, 2020 | $ 648,475 | $ 10,251,251 | $ 3,473,598 | $ 4,140,797 | $ 18,514,121 |
| **Self Insurance (Fund 16)** | | | | | |
| Balance at June 30, 2019 | $ 19,639 | $ 75,631 | $ 34,110 | $ 57,399 | $ 186,780 |
| Expenses / Claims | - | - | - | - | - |
| Balance at June 30, 2020 | $ 19,639 | $ 75,631 | $ 34,110 | $ 57,399 | $ 186,780 |
| **Operating & Capital Reserve (Fund 17)** | | | | | |
| Balance at June 30, 2019 | $ 772,105 | $ 3,373,790 | $ 879,998 | $ 1,823,632 | $ 6,849,527 |
| Member Contributions | 4,968 | 25,536 | 7,956 | 14,112 | 52,572 |
| Unrealized Gain / (Loss) on Investment | 9,463 | 43,169 | 11,535 | 19,059 | 83,225 |
| Fees | (466) | (2,127) | (568) | (939) | (4,102) |
| Interest Income | 8,858 | 40,411 | 10,798 | 17,841 | 77,908 |
| Balance at June 30, 2020 | $ 794,928 | $ 3,480,778 | $ 909,719 | $ 1,873,705 | $ 7,059,130 |

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# Silicon Valley Clean Water

Analysis of Net Position
Supplemental Schedule
For the Year Ended June 30, 2020

| Fund / Location | | Belmont | | Redwood City | | San Carlos | | West Bay Sanitary District | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue-Funded Capital Improvements (Fund 14)** | | | | | | | | | | |
| Balance at June 30, 2019 | $ | 915,647 | $ | 4,492,448 | $ | 1,135,326 | $ | 2,530,230 | $ | 9,073,652 |
| Member Contributions - Pay go capital projects | | 159,168 | | 818,076 | | 255,012 | | 452,076 | | 1,684,332 |
| Miscellaneous Revenue | | 643 | | 3,307 | | 1,031 | | 1,828 | | 6,809 |
| Project Expenditures not yet transferred to Fund 18 | | (4,416) | | (22,699) | | (7,076) | | (12,544) | | (46,735) |
| Capitalized Projects transferred to Fund 18 | | (161,788) | | (831,538) | | (259,203) | | (459,512) | | (1,712,041) |
| Balance at June 30, 2020 | $ | 909,254 | $ | 4,459,594 | $ | 1,125,091 | $ | 2,512,078 | $ | 9,006,017 |
| | | | | | | | | | | |
| **Recycled Water (Fund 19)** | | | | | | | | | | |
| Balance at June 30, 2019 | $ | - | $ | 27,438 | $ | - | $ | - | $ | 27,438 |
| RWC Recycled Water O&M Contributions | | - | | 243,443 | | - | | - | | 243,443 |
| RWC Recycled Water O&M Expenditures | | - | | (219,589) | | - | | - | | (219,589) |
| Balance at June 30, 2020 | $ | - | $ | 51,292 | $ | - | $ | - | $ | 51,292 |
| | | | | | | | | | | |
| **Plant Capital Improvement Program (Fund 20)** | | | | | | | | | | |
| Balance at June 30, 2019 | | 18,778,233 | | (48,715,278) | | (18,907,145) | | (28,014,570) | $ | (76,858,762) |
| Member Contributions | | 6,731,502 | | 11,235,452 | | 3,538,085 | | 11,953,013 | | 33,458,052 |
| Unrealized Gain (Loss) | | 53,501 | | 762,982 | | 237,837 | | 421,193 | | 1,475,512 |
| Interest on Trustee Reserves | | 73,418 | | 1,837,137 | | 537,923 | | 920,586 | | 3,369,063 |
| Capitalized Projects Transferred to Fund 18 | | (4,047,605) | | (20,803,407) | | (6,484,735) | | (11,496,056) | | (42,831,803) |
| Interest Expense, Direct | | (133,524) | | (9,431,160) | | (2,939,160) | | (4,690,277) | | (17,194,121) |
| Interest Expense, Allocated | | (156,225) | | (848,967) | | (297,422) | | (539,931) | | (1,842,545) |
| Amortization of Bond Premium | | 117,285 | | 2,205,989 | | 676,614 | | 1,167,711 | | 4,167,599 |
| Other Expenses | | (168,827) | | (867,719) | | (270,481) | | (479,505) | | (1,786,533) |
| Balance at June 30, 2020 | $ | 21,247,758 | $ | (64,624,971) | $ | (23,908,485) | $ | (30,757,837) | $ | (98,043,536) |
| | | | | | | | | | | - |
| **TOTAL NET POSITION - June 30, 2020** | **$** | **40,712,659** | **$** | **44,511,273** | **$** | **8,848,015** | **$** | **29,040,036** | **$** | **123,111,984** |
| CY % | | *33.07%* | | *36.16%* | | *7.19%* | | *23.59%* | | *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, 2020, and the related notes to the financial statements, which collectively comprise SVCW's basic financial statements, and have issued our report thereon dated October 15, 2020.

**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

October 15, 2020
Pleasant Hill, California