



WEST VALLEY SANITATION DISTRICT OF SANTA CLARA COUNTY



ANNUAL REPORT 2018-2019

WEST VALLEY
SANITATION DISTRICT

ANNUAL REPORT

OF

WEST VALLEY SANITATION DISTRICT
SANTA CLARA COUNTY, CALIFORNIA

FOR

FISCAL YEAR 2018-2019

100 EAST SUNNYOAKS AVENUE
CAMPBELL, CALIFORNIA 95008

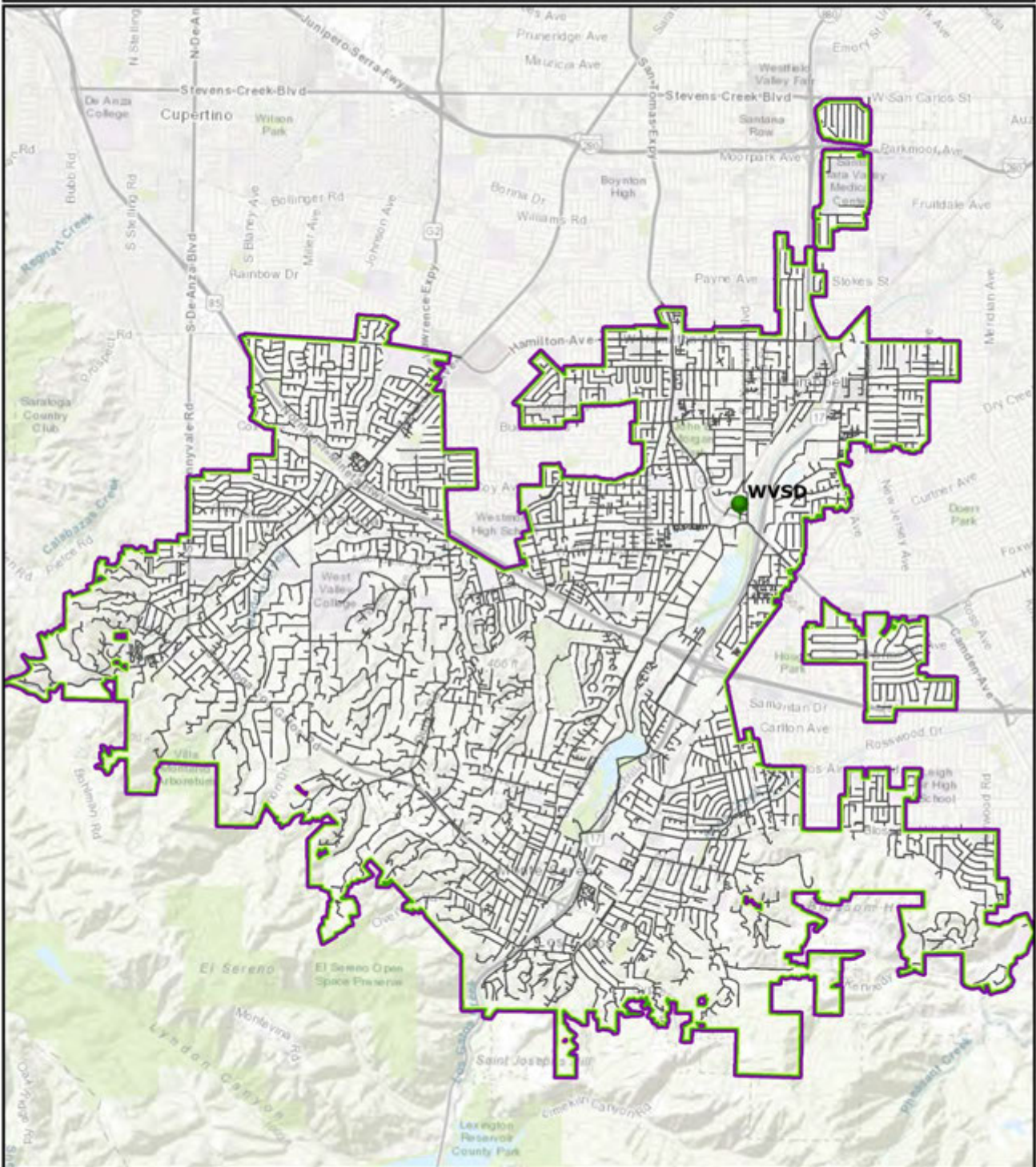
(408) 378-2407

www.westvalleysan.org

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West Valley Sanitation District Service Area



West Valley
Sanitation District



District
Boundary



BOARD OF DIRECTORS
FISCAL YEAR 2018-2019

City of Campbell

Paul Resnikoff January 12, 2017 - Current

Town of Los Gatos

Steven Leonardis January 23, 2013 - Current

City of Monte Sereno

Rowena Turner December 20, 2016 - Current

City of Saratoga

Manny Cappello December 17, 2014 - Current

Santa Clara County

Mike Wasserman January 9, 2018 - Current
Board of Supervisor, District 1

ADMINISTRATIVE OFFICERS

Jon Newby
7/9/12

District Manager and Engineer

Laura McKinney
7/1/17 – 11/27/18
John Bakker
11/28/18 – 6/30/19

District Counsel

Lesha Luu
10/12/11

District Secretary

EX OFFICIO OFFICERS

Alan Minato

Santa Clara County
Director of Finance

Lawrence E. Stone

Santa Clara County
Assessor



MANAGER'S MESSAGE

For over seven decades, the District has been providing uninterrupted 24 hours a day, seven days a week wastewater operation. Achieving our mission translates into serving over 46,000 connections and ensuring more than 600 miles of sewer pipeline are continuously conveying wastewater uninterrupted 365 days a year to the San Jose-Santa Clara Regional Wastewater Facility located in Alviso on the southern end of the San Francisco Bay. There, the wastewater is treated through a series of processes that make it clean and available for reuse as recycled water for irrigation or industrial application, and the remaining fresh water is released into the Alviso Slough. This is no small task but thanks to an efficient, well trained and dedicated staff, the District continues to excel in providing services.

We are pleased to present our annual report describing the services the District provides to the residents of Campbell, Los Gatos, Monte Sereno, Saratoga and intervening unincorporated areas of Santa Clara County. At the conclusion of the report, the District's financial statements and independent auditor's letter are presented.

This fiscal year, the District fully completed the exit transition plan for the storm drainage maintenance and fiscal agent service provided to the Clean Water Program. The District greatly appreciated the unified approach working with the Clean Water Program to provide a smooth transition of services.

The District has been fortunate to have developed a trusting and collaborative relationship with the Northern California Regional Council of Carpenters Union representing the employees of the District. This relationship provided the foundation for a successful negotiation of a new Memorandum of Understanding covering both of the District's bargaining groups beginning on July 1, 2019 for a 4-year term.

Now in our 71th year of operation, the District staff and myself are looking forward to delivering quality services to the residents and business of the West Valley.

Jon Newby
District Manager and Engineer

WEST VALLEY SANITATION DISTRICT SERVICE AREA

The District provides wastewater collection, transport, and disposal services for the cities of Campbell, Los Gatos, Monte Sereno, two-thirds of Saratoga, and intervening unincorporated areas of the county. The District wastewater collection system consists of approximately 600 miles of sanitary sewers (415 miles of force main, branch, gravity main, and trunk sewers ranging in size from 3 to 39-inches; and 185 miles of lower sewer laterals), including three pump stations, within approximately 28 square miles.

| | 1948 Inception | FY 18-19 |
|-----------------|-------------------|----------|
| Square Miles | 36 | 28 |
| Population | 20K | 110K |
| Miles of Sewers | 12 | 600 |
| Pump Stations | 0 | 3 |

The population and the number and types of residence and commercial/non-residential wastewater connections (based on the FY 18-19 Sewer Service billing collected by the County Tax Roll) for each agency served is summarized in Table 1 below.

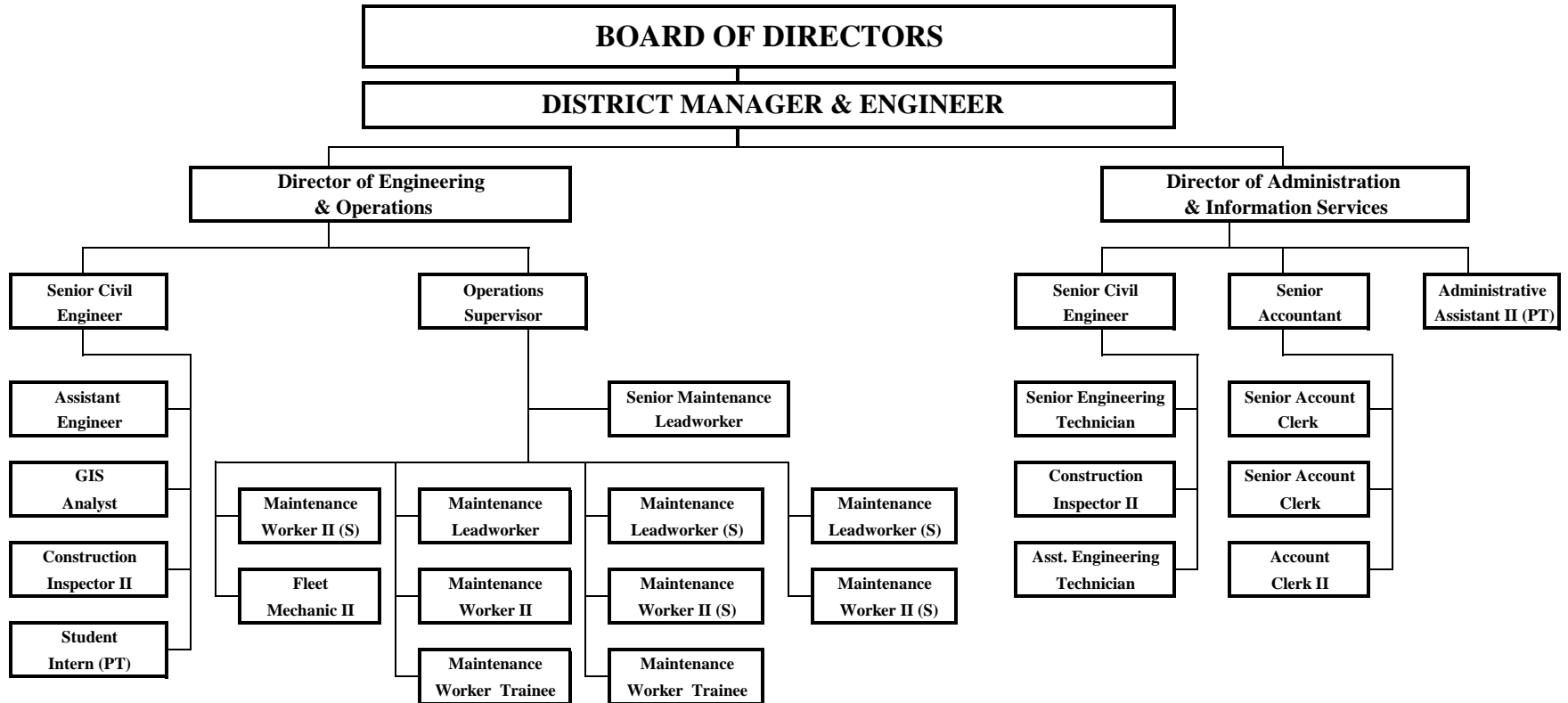
TABLE 1
Summary of District service area population and sanitary sewer system connections

| | <i>Campbell</i> | <i>Los Gatos</i> | <i>Monte Sereno</i> | <i>Saratoga</i> | <i>County</i> | <i>Total</i> |
|---|------------------------|------------------------|-----------------------|-----------------------|----------------------|--------------------------|
| Population Served* | 43,250↑ ⁵⁵⁴ | 30,988↑ ³⁸⁷ | 3,787↑ ¹⁵⁷ | 23,540↑ ¹² | 8,519↑ ²⁰ | 110,084↑ ¹¹³⁰ |
| <u>Residential Connections</u> | | | | | | |
| Single Family Dwelling Units | 10,401↑ ³⁹ | 9,033 | 1,184↑ ¹ | 8,154 | 2,914↑ ¹ | 31,701↑ ⁵⁶ |
| Multi-Family Dwelling Units | 7,069↑ ¹⁴⁷ | 3,287↓ ¹⁰ | - | 478 | 167 | 11,001↑ ¹³⁷ |
| Mobile Home Units | 243 | 69 | - | - | - | 312 |
| Accessory Dwelling Units | 124↑ ¹⁰ | 240↑ ¹⁴ | 91↑ ⁶ | 120↑ ⁷ | 107↑ ¹⁰ | 682↑ ⁴⁷ |
| <u>Commercial / Non-Residential Connections</u> | 1,495 | 1,127↓ ² | 9↑ ² | 306 | 107↓ ¹ | 3,044↓ ¹ |
| Total Connections | 19,332↑ ¹⁹⁶ | 13,756↑ ² | 1,284↑ ⁹ | 9,058↑ ⁷ | 3,295↑ ¹⁰ | 46,740↑ ²³⁹ |

*Population data for Campbell, Los Gatos, and Monte Sereno derived from the California Department of Finance; Saratoga and Santa Clara County based on the number of residential connections and estimated occupancy per residential type.

WEST VALLEY SANITATION DISTRICT

FY 2018-2019 ORGANIZATION CHART



5

(S) - Specialized

6/30/19

Staffing
 3 Executive Management
 12 Operations
 5 Engineering
 9 Administration

 29 Total Positions

ORGANIZATIONAL STRUCTURE

West Valley Sanitation District is governed by a five-member Board of Directors, and staffed by 29 employees. The District Manager and Engineer is responsible for the overall management of the District and implementation of board policies. The District staff is organized into two divisions: Administration and Information Services Division, and Engineering and Operations Division. The District is fortunate to have an outstanding and motivated staff dedicated to providing prompt and cost-effective service to the community. Operation division staff are available 24 hours a day, 7 days a week, to respond to sewer overflows, and the District's front counter personnel provide courteous and friendly sewer connection information to answer questions about service availability. Sewer maintenance productivity continues to exceed industry standards; and productivity in other areas, such as connection permits and inspections, have increased by measurable amounts. The District's performance incentive program continues to be successful in promoting employee achievement, goal-setting, and creative problem-solving.



Jon Newby, District Manager and Engineer

ADMINISTRATION AND INFORMATION SERVICES

The Administration and Information Services Division is an integral part of the District's operation. The Division is responsible for the financial and administrative aspects of the District. Services provided by the Division include:

- Budget preparation and tracking
- Payroll, accounts payable and receivable
- Clerk of the Board of Directors
- Sewer connection permits and inspection
- FOG inspection and compliance program
- Accounting and financial reporting
- Collection of sewer service charges
- Personnel and human resources
- Information systems management

In 2016, the District developed a team-based strategy to manage the annual strategic plan objectives and action items. This team-based strategy has proven valuable to the organization in improved communication and building stronger relationships throughout the organization. The District continues to utilize the team-based strategy on projects spanning across functions. In fiscal year 2018-2019, staff in the Administration and Information Services Division lead various projects in supporting the current year strategic plan objectives. These projects focus on financial planning, regulatory compliance, and effort to promote transparency and good governance.

Despite the challenge to develop a reliable forecast of the financial costs imposed by the City of San Jose for the Operation and Capital Improvement Program of the Regional Wastewater Facility, the District continues to explore options to fund financial obligations including short-term and long-term debt financing and inter-agency borrowing. The updated projections affirmed the requirements to issue one or two separate bonds in the next three fiscal years. In preparation for debt issuance, the District adopted a Debt Management Policy in compliance with Government Code section 8855(i).

To ensure the District's Ordinances are conforming with current laws, regulations, and best practices, a comprehensive review and revision of the District's Ordinance was completed in the fiscal year.

The District renewed the Transparency Certificate of Excellence issued by the California Special District's Association in recognition of its outstanding efforts to promote transparency and good governance. The District must demonstrate the completion of eight essential governance transparency requirements such as properly conducting open public meetings, filing of financial transactions and compensation report to the State Controller in a timely manner, and conduct financial third party audits.

Other significant accomplishment in the fiscal year included the establishment of use tax reporting & filing program and engagement with State authority in connection with self-correction remedial actions on the District's use tax obligation.

ENGINEERING AND OPERATIONS

The Engineering and Operations Division is comprised of two departments, Engineering and Operations, and is responsible for the management of the District's sanitary sewer collection system, facilities, and fleet. The Engineering Department is responsible for the maintenance and enforcement of District Standards, perform engineering studies, planning and design, the development and update of the Capital Improvement Program (CIP), review and approval of private development and tenant improvement plans, and performing project and construction management. The Operation Department is responsible for the maintenance, CCTV inspection, and condition assessment of the collection system, operation and maintenance of pump stations, and maintenance of District facilities and fleet. The maintenance staff is on-call 24/7 and is ready to respond to customer service requests, or sewer overflow events throughout the year.

The District continued to witness a steady flow of private development and commercial tenant improvement projects. There were seven private development projects that added approximately 500 lineal feet of new public sewer and associated structures that required engineering review and inspection. In addition, engineering review was performed on approximately 52 commercial/tenant improvements. Approximately \$4.9 million was expended on the design and construction of the District's CIP projects and ongoing engineering studies. Significant design, construction, and studies include: University Avenue (Blossom Hill Rd to Hwy 85), Quito Basin 3 and 4 and the Winchester Boulevard Trunk Sewer Rehabilitation Projects, the ongoing Multi-Year Sewer Repair Contract, and the Inflow and Infiltration (I&I) Reduction Program.

Approximately 1.55 million lineal feet of sewer main and 1,100 sewer laterals were cleaned, respectively. In this same period, approximately 224,000 lineal feet of sewer main was CCTV inspected and assessed. As part of the District's proactive lateral maintenance program, there has been an increased focus on lateral locating (GPS), mapping, and cleaning. To date, all 27,800 properties that have lower laterals have been inspected and approximately 10,000 cleanouts have been found, surveyed and mapped.

The District's Sewer System Management Plan (SSMP) is a comprehensive document that describes the activities used by the District to effectively operate, maintain, and manage its sewer collection system. In compliance with State Water Resources Control Board requirements, the District performed its required biennial audit and five-year re-certification of its SSMP in May 2018 and August 2018, respectively. The current version of the SSMP, and SSMP Audit, is available for public review on the District's website at www.westvalleysan.org/documents/engineering/ssmp.

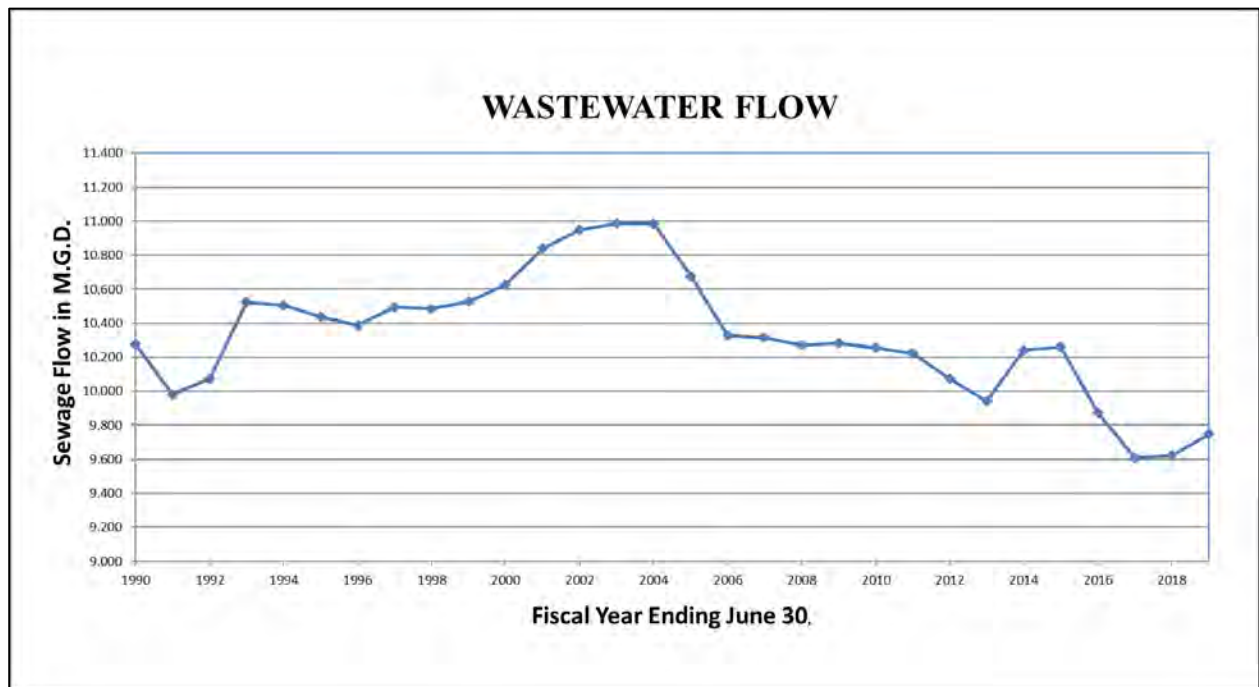
WVSD OPERATIONS ACTIVITIES

Fiscal Year Ending June 30, 2019

| <u>ACTIVITY</u> | <u>QUANTITY</u> |
|-------------------------------------|-----------------|
| SERVICE CALLS: | |
| Service Calls Received | 765 ea |
| Avg. Response Time | |
| Business Hours | 24 min |
| After Hours | 33 min |
| MAIN SEWER: | |
| Stoppages | 53 ea |
| Sanitary Sewer Overflows (SSO): | |
| Category 1 | 3 ea |
| Category 2 | 2 ea |
| Category 3 | 7 ea |
| Main Overflow Rate (SSOs/100mi): | |
| District | 2.9 |
| Region 2 (SF Bay) | 18.8 |
| Statewide | 13.5 |
| Cleaning | 1,546,000 feet |
| CCTV Inspections | 224,000 feet |
| LATERAL SEWER: | |
| Stoppages | 445 ea |
| Sanitary Sewer Overflows (SSO): | |
| Category 1 | 0 ea |
| Category 2 | 0 ea |
| Category 3 | 1 ea |
| Private Laterals (PLSD) | 0 ea |
| Lateral Overflow Rate (SSOs/100mi): | |
| District | 0.5 |
| Region 2 (SF Bay) | 18.8 |
| Statewide | 16.8 |
| Cleaning | 1,100 ea |
| CCTV Inspections | 600 ea |

WASTEWATER TREATMENT AND DISPOSAL

West Valley Sanitation District contracts with the San Jose-Santa Clara Regional Wastewater Facility for wastewater treatment and disposal. In fiscal year 2018-2019, the District collected and conveyed 9.748 million gallons per day of wastewater to the treatment plant. The plant, located near Zanker Road in north San Jose, collects and treats wastewater from local municipalities and sanitation districts and discharges the treated wastewater into the San Francisco Bay. West Valley Sanitation District accounts for approximately 10% of the treatment flow at the plant.



Note: The District performed a residential flow analysis in 2004 that resulted in reducing single family household flow from 219 to 184 gallons per day. In 2015, the City of San Jose and the District completed a subsequent update to the flow coefficients that increased the flow from 184 to 186 gallons per day for single family households and decreased the flow from multi-family dwellings from 160 to 144 gallons per day.

SEWER EXTENSION AND REPLACEMENT FINANCING PROGRAMS

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

ASSESSMENT DISTRICTS

Under assessment districts, sewers are financed by public improvement bonds, with costs assessed to property owners and collected over 15 years on the county tax roll. The assessment districts were instigated in 1957 and continued through 1985, with the last assessment project paid off in fiscal year 1999-2000.

PRIVATE LATERAL REPLACEMENT PROGRAM

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

DISTRICT PARTICIPATION PROGRAM

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

PAST DUE FEES REPAYMENT PROGRAM

The Past Due Fees Repayment Program provides an incentive for property owners to bring their properties into compliance with current sewer permit requirements. The program allows property owners to update the obsolete sewer use permit to current used by spreading payments of use change fees to five or ten years with zero-interest.

SEPTIC SYSTEM ABANDONMENT PROGRAM

The District Septic System Abandonment Program (SSAP) was initiated in March, 1986 to encourage property owners in urbanized areas to abandon their septic systems and connect to the District sewer system.

Under the SSAP, the District designs and constructs the main and lateral sewers in neighborhoods where the residents have expressed interest in obtaining public sewer service. Unlike an assessment district, the program is entirely voluntary. Property owners are not required to pay for their pro rata share of the sewer construction costs until they decide to connect to the District sewer system; however, they may pay prior to connecting. Property owners are given the option of paying cash or, in order to encourage repayment, enter into a District offered ten-year financing agreement.

As of June 30, 2019, the District completed 45 projects providing sewer service to 1,153 properties as summarized in Table 2.

TABLE 2
Summary of District service area population and sanitary sewer system connections

| <i>Project Area</i> | <i>Parcels Served</i> | <i>Parcels Connected</i> | <i>Approximate Project Cost*</i> | <i>Cash Payment Made</i> | <i>Payment Financed</i> |
|---------------------------|-----------------------|--------------------------|----------------------------------|--------------------------|-------------------------|
| Bainter Ave / Bainter Way | 14 | 7 | \$162,025 | \$58,315 | \$30,120 |
| Bella Vista Ave | 17 | 8 | \$160,337 | \$58,351 | \$22,218 |
| Bellecourt | 24 | 15 | \$358,563 | \$109,635 | \$193,523 |
| Bucknam | 9 | 8 | \$34,090 | \$16,162 | \$18,780 |
| Cambrian Park | 355 | 280 | \$1,125,649 | \$359,128 | \$1,061,265 |
| Camellia Terrace | 21 | 12 | \$109,264 | \$38,578 | \$61,017 |
| Chirco | 12 | 6 | \$94,127 | \$10,533 | \$38,648 |
| Clydelle | 12 | 8 | \$44,238 | \$3,650 | \$43,800 |
| Cristich/Veitenheimer | 14 | 3 | \$110,134 | \$32,274 | - |
| Donna Ln/Nutwood Ln | 14 | 11 | \$110,466 | \$99,397 | \$17,298 |
| Emory | 73 | 54 | \$209,775 | \$60,230 | \$168,832 |
| Eucalyptus/Toyon | 6 | 5 | \$119,623 | \$84,399 | \$54,749 |
| Farwell Ave | 6 | 6 | \$116,398 | \$64,261 | \$74,792 |
| Glen Una Drive | 10 | 5 | \$74,077 | \$41,028 | \$48,011 |
| GlenUna Dr/Red Hill Dr | 23 | 20 | \$309,826 | \$148,491 | \$116,592 |
| Greenwood | 10 | 10 | \$124,093 | \$76,105 | \$104,615 |
| Hedegard | 12 | 6 | \$79,326 | \$26,473 | \$54,680 |
| Hoffman Lane | 20 | 6 | \$220,679 | \$37,764 | \$31,490 |
| Kennedy Road | 15 | 11 | \$173,487 | \$39,392 | \$82,709 |
| Leroy | 17 | 11 | \$68,697 | \$31,569 | \$61,006 |
| Lovell | 29 | 21 | \$136,445 | \$25,016 | \$97,799 |
| Lucot | 18 | 18 | \$74,314 | \$45,898 | \$47,374 |
| Matilija Drive/Ojai Drive | 12 | 10 | \$177,790 | \$106,063 | \$43,489 |
| Mc Bain | 24 | 22 | \$107,467 | \$29,582 | \$66,046 |
| Mellowood | 34 | 32 | \$124,561 | \$57,936 | \$135,867 |

| <i>Project Title</i> | <i>Parcels Served</i> | <i>Parcels Connected</i> | <i>Approximate Project Cost*</i> | <i>Cash Payment Made</i> | <i>Payment Financed</i> |
|----------------------|-----------------------|--------------------------|----------------------------------|--------------------------|-------------------------|
| <i>Cont'd</i> | | | | | |
| Mitchell | 9 | 7 | \$77,095 | \$24,646 | \$28,287 |
| Olympia | 18 | 14 | \$58,460 | \$23,783 | \$46,783 |
| Overlook Road | 24 | 10 | \$768,193 | \$90,286 | \$198,223 |
| Paseo Lado | 26 | 24 | \$131,602 | \$51,383 | \$103,256 |
| Pepper/Park | 57 | 45 | \$484,886 | \$215,712 | \$251,088 |
| Pleasant | 4 | 3 | \$40,718 | - | \$32,357 |
| Redberry | 6 | 6 | \$62,895 | \$37,581 | \$31,270 |
| Redding Road | 5 | 5 | \$54,222 | - | \$56,499 |
| Rosemary | 17 | 10 | \$64,483 | \$31,460 | \$23,602 |
| S. San Tomas Aquino | 8 | 4 | \$49,565 | \$11,137 | \$13,309 |
| Saratoga | 14 | 8 | \$84,960 | \$11,460 | \$62,089 |
| Saratoga Glen | 47 | 35 | \$221,678 | \$23,758 | \$218,415 |
| Shannon Road | 3 | 1 | \$103,084 | \$34,361 | - |
| Sunnyside/El Camino | 10 | 10 | \$149,239 | \$106,943 | \$64,673 |
| Vasona | 8 | 4 | \$43,186 | \$12,918 | \$4,975 |
| Walbrook | 25 | 24 | \$197,512 | \$44,985 | \$138,868 |
| Walnut | 51 | 43 | \$332,546 | \$129,635 | \$232,771 |
| Wekiva | 8 | 8 | \$31,728 | \$2,900 | \$39,813 |
| Wendell | 6 | 6 | \$29,153 | \$21,554 | \$12,000 |
| Wild Way | 6 | 1 | \$47,178 | - | \$8,140 |
| Total | 1,153 | 863 | \$7,457,834 | \$2,534,732 | \$4,241,138 |

*Includes construction contract, design consultant services, District design and construction management, and District overhead expenditures.

SERVICE RATES AND FEES

The cost of operating and maintaining the District sewer system; and paying the District share of wastewater treatment and disposal is financed by an array of rates and fees. In May 2018, the Board of Directors enacted an ordinance establishing the sewer service rates for fiscal years 2018-2019 through 2022-2023, Sewer System Connection Fees for fiscal years 2018-2019 through 2020-2021, and Treatment Plant Capacity Fees for fiscal years 2018-2019 through 2020-2021. These rates and fees are outlined in Table 3 below, and Figure 1 shows the change in these rates and fees for a Single Family Residence over the last ten years.

TABLE 3
Summary of rates and fees applied to all residential and commercial/non-residential

| Use Type | Sewer System Connection Fee (Ord. Code Ch. 10.090) | Treatment Plant Capacity Fee (Ord. Code Ch. 10.120) | Sewer Service & Use Charge (Ord. Code Ch. 10.060) | | |
|-----------------------------------|---|--|--|------------------------------------|-------------|
| | | | % Increase from Previous FY | Monthly Rate | Annual Rate |
| Single-Family Residence | \$9,712 | \$1,397 | 5.7% | \$46.25 | \$555.00 |
| Townhouse / Condominium | \$9,712 | \$1,397 | 5.7% | \$46.25 | \$555.00 |
| Multi-Family Premises Unit | \$8,351 | \$1,168 | 7.9% | \$32.96 | \$395.52 |
| Mobile Home Park Premises | \$6,727 | \$1,024 | 3.2% | \$31.53 | \$378.36 |
| Accessory Dwelling Unit* | \$6,727 | \$1,024 | 3.2% | \$31.53 | \$378.36 |
| | | | | Rate (per HCF H ₂ O) | |
| Restaurant | | | 7.6% | \$9.30 | |
| Hotel/Motel | | | 6.8% | \$4.78 | |
| Hospitals and Convalescent Homes | | | 7.6% | \$4.48 | |
| Schools / Churches | | | 3.4% | \$5.41 | |
| Service Station / Repair Shops | | | 5.2% | \$5.03 | |
| Domestic Laundry | | | 6.7% | \$4.18 | |
| Retail/Office/Misc. | | | 3.0% | \$4.79 | |
| Winery | | | 6.0% | \$14.22 | |
| Printing Works | | | 4.1% | \$6.46 | |
| Machinery Manufacturing | | | 4.2% | \$6.77 | |
| Electrical Equipment Manufacturer | | | 4.1% | \$4.56 | |
| Film Service | | | 0.0% | \$4.61 | |
| Plating Works | | | 1.1% | \$4.24 | |
| Industrial Laundry | | | 3.4% | \$9.03 | |
| Car Wash | | | 6.7% | \$3.77 | |

*Maximum fee amounts listed. Fee per drainage fixture unit (13 or less units): \$511.16 for Sewer System Connection Fee and \$73.53 for Treatment Plant Capacity Fee

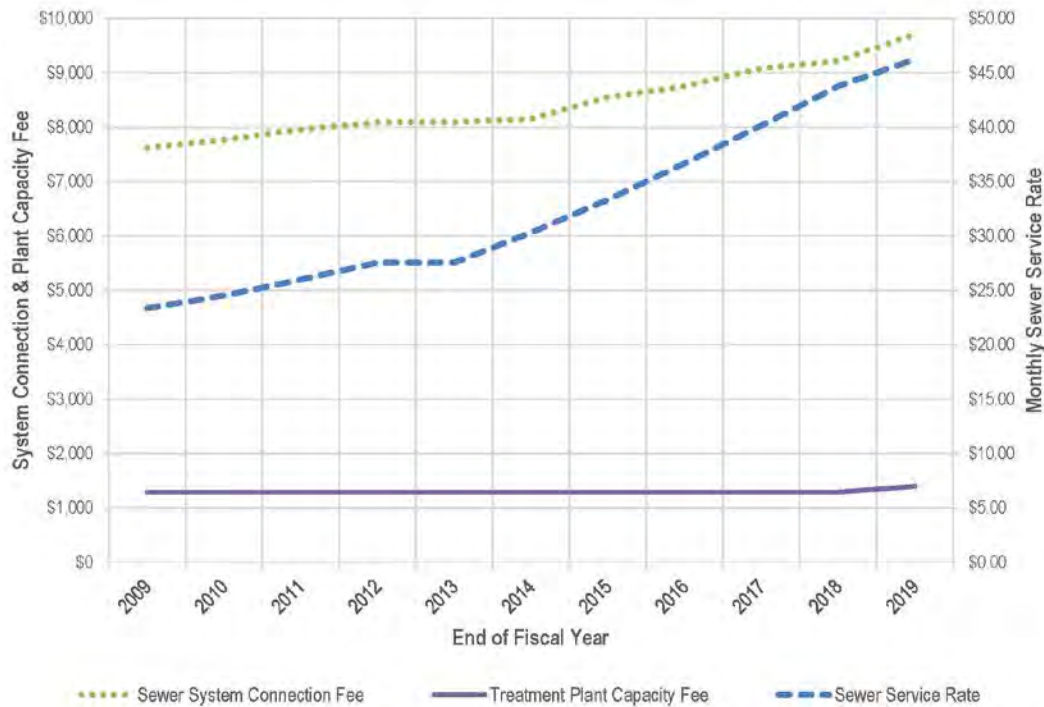


FIGURE 1. Single family residence rate and fees for the last ten years

In fiscal year 2018-2019, the District’s Board of Directors adopted a resolution continuing the collection of the "Hillside Zone Additional Sewer Rate. A surcharge of \$100.00 is imposed on the sewer service bills of properties in the District's Hillside areas to fund repairs to sewers which have been damaged by land movement in the Hillside Zone.

Fiscal year 2018-2019 was the 26th year of the storm drain program rate. The program was established by the Board of Directors in fiscal year 1992-1993 to assist the Cities of Campbell, Los Gatos, and Monte Sereno in their efforts to comply with the requirements of the Clean Water Act. The fees, outlined in Table 4, are established according to the recommendations of the cities in the program, and are collected on the District's tax roll along with sewer service rates. The funds are distributed to the municipalities upon collection of the fees.

TABLE 4
Additional local agency storm drain management fees (Ord. Code Ch. 8)

| <i>Property Type</i> | <i>Per Year</i> | <i>Notes</i> |
|-----------------------------------|-----------------|------------------------------------|
| <u>Residential</u> | | |
| City of Campbell | \$19.48 | |
| Town of Los Gatos | \$20.37 | |
| City of Monte Sereno | \$16.58 | |
| <u>Commercial/Non-Residential</u> | Varies | According to lot size and land use |

The District’s Board of Directors have also adopted administrative fees, as outlined in Table 5 below, to defray the costs incurred by the District in the processing of applications, plan approvals, and all other administrative tasks involved in the connection or disconnection of properties to the District’s sewer system, or substantial alteration to the use of an existing connection.

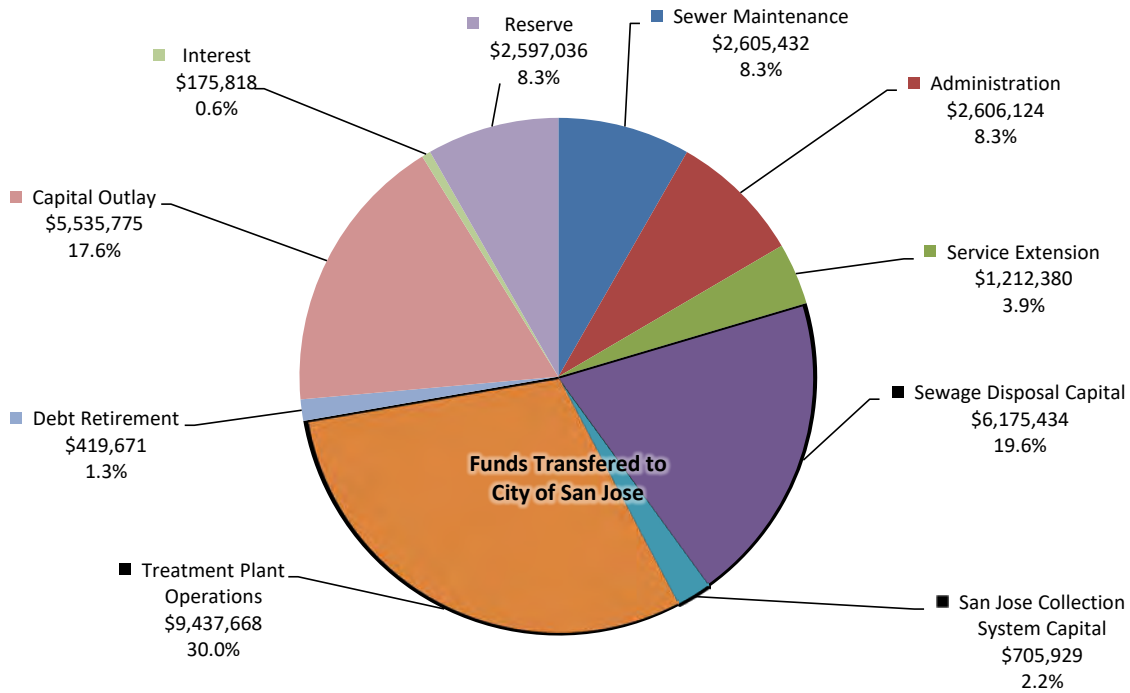
TABLE 5
Summary of administrative fees (Ord. Code Ch. 10.010)

| <i>Fee Type</i> | <i>Fee</i> | <i>Notes</i> |
|---|------------|---|
| Annexation Application | \$1,100 | |
| Local Agency Public Improvement Sewer Plan Review/Approval | \$770 | or 2% of project cost, whichever is greater |
| Public Sewer Construction/Television Inspection | \$1,000 | or 3% of project cost, whichever is greater |
| Public ROW Sewer Lateral Construction Inspection | \$550 | |
| Construction Re-inspection | Varies | Actual incurred costs |
| Permit (Requiring no Sewer Lateral Television Inspection) | \$250 | |
| Permit (Requiring Sewer Lateral Television Inspection) | \$425 | |
| Sewer Lateral Disconnection Permit | \$135 | |

FISCAL YEAR 2018-2019

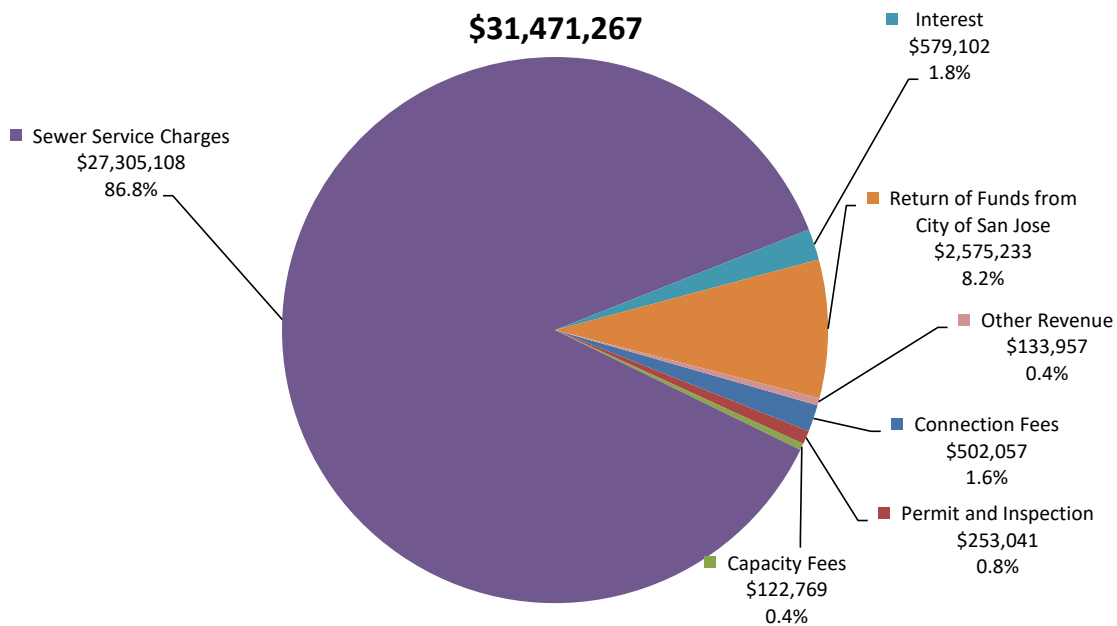
USE OF FUNDS

\$31,471,267



SOURCE OF FUNDS

\$31,471,267



APPENDIX

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

WEST VALLEY SANITATION DISTRICT
OF SANTA CLARA COUNTY

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

* * *



Chavan & Associates, LLP
Certified Public Accountants
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

**West Valley Sanitation District
of Santa Clara County**

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June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the West Valley Sanitation District (the "District"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information



of the West Valley Sanitation District, as of June 30, 2019, and the respective changes in financial position and, 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, schedule of contributions for pension plans, schedule of proportionate share of net pension liability, schedule of contributions for other postemployment benefits, and schedule of changes in net OPEB liability, 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.

Prior-Year Comparative Information

We have previously audited the District's fiscal year June 30, 2018 financial statements, and we expressed unmodified audit opinions on the respective financial statements in our report dated September 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C & A LLP

November 4, 2019
San Jose, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

West Valley Sanitation District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

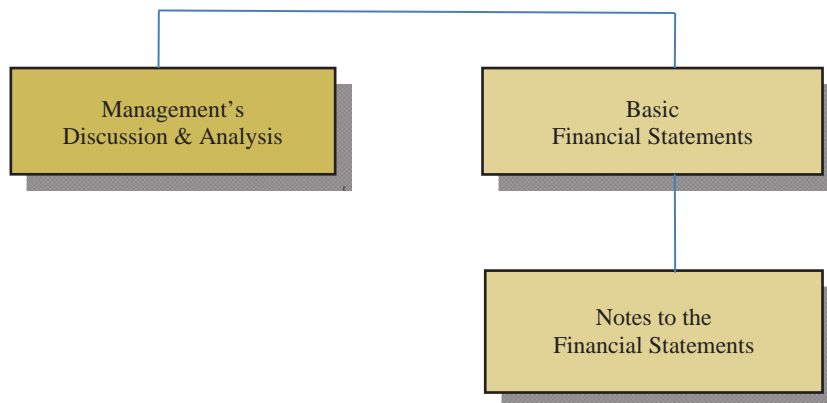
INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

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

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

Required Components of the Annual Financial Report



West Valley Sanitation District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2019 were as follows:

- The Statement of Net Position indicates that total assets and deferred outflows of resources exceeded total liability and deferred inflows of resources by \$142,791,857. Unrestricted net position represents \$32,135,681 and the remaining \$110,656,176 is net investment in capital assets and capacity rights.
- Total net position increased \$10,158,270 (7.66%) in fiscal year 2019 compared to an increase of \$4,779,970 (3.74%) in fiscal year 2018.
- Total assets increased 8.9% from 143,469,778 in fiscal year 2018 to \$156,234,251 in fiscal year 2019.
- Total liabilities increased 43.26% from \$7,659,614 in fiscal year 2018 to \$10,973,464 in fiscal year 2019.
- The District recorded deferred outflows of resources of \$1,610,985, a decrease of \$404,223, and deferred inflows of resources of \$4,079,915, a decrease of \$1,111,870, in order to record the different components required by GASB 68 and GASB 75 for pension and other postemployment benefit accounting and reporting, and report unavailable revenues. Deferred outflows of resources are technically not assets but increase net position similarly to an asset and deferred inflows of resources are technically not liabilities but decrease net position similarly to liabilities. See Note 1 under *Measurement Focus and Basis of Accounting* in the notes to financial statements for a definition of deferred inflows and outflows of resources.
- Total operating revenue increased by \$3,354,043 (12.73%) mainly due to an increase of \$1,861,105 in sewer service charges from prior year (7.36%) and \$2,150,875 in operating cost reimbursements from the City of San Jose.
- Total operating expenses decreased by \$3,223,742 (13.11%) from prior year. Most of the decrease was due to one-time pension contributions that were deferred from FY 2017 into FY 2018 totaling \$5,115,529.

BASIC FINANCIAL STATEMENTS

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

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

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

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

West Valley Sanitation District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 provides a summary of the District's net position as of June 30, 2019 as compared to June 30, 2018, and Table 2 provides the changes in net position for fiscal year 2019 as compared to 2018. Net position is an indicator of the District's financial health.

| Table 1 - Summary Statement of Net Position | | | | |
|--|-----------------------|-----------------------|----------------------|----------------------|
| | 2019 | 2018 | Dollar Change | Percentage Change |
| Assets | | | | |
| Current Assets | \$ 39,449,854 | \$ 36,230,915 | \$ 3,218,939 | 8.88% |
| Noncurrent Assets | 116,784,397 | 107,238,863 | 9,545,534 | 8.90% |
| Total Assets | \$ 156,234,251 | \$ 143,469,778 | \$ 12,764,473 | 8.90% |
| Deferred Outflows | | | | |
| Deferred Outflows | \$ 1,610,985 | \$ 2,015,208 | \$ (404,223) | -20.06% |
| Liabilities | | | | |
| Current Liabilities | \$ 5,172,784 | \$ 1,394,973 | \$ 3,777,811 | 270.82% |
| Noncurrent Liabilities | 5,800,680 | 6,264,641 | (463,961) | -7.41% |
| Total Liabilities | \$ 10,973,464 | \$ 7,659,614 | \$ 3,313,850 | 43.26% |
| Deferred Inflows | | | | |
| Deferred Inflows | \$ 4,079,915 | \$ 5,191,785 | \$ (1,111,870) | -21.42% |
| Net Position | | | | |
| Net Investment in Capital Assets | \$ 110,656,176 | \$ 101,031,516 | \$ 9,624,660 | 9.53% |
| Unrestricted | 32,135,681 | 31,602,071 | 533,610 | 1.69% |
| Total Net Position | \$ 142,791,857 | \$ 132,633,587 | \$ 10,158,270 | 7.66% |

As illustrated above, the District's total net position increased by \$10,158,270 from fiscal year 2018 to 2019. The increase was mainly attributed to increases to Capacity Rights in Treatment Plant and Capital Assets.

Total assets increased by \$12,764,473 (8.9%) mostly due to an increase in Cash and Investments of \$3,256,930, Capacity Rights in Treatment Plant of \$2,956,049 and Capital Assets of \$6,248,940. Noncurrent assets account for 74.75% of total assets. Included in noncurrent assets are Restricted Assets, the District's Capacity Rights in the Treatment Plant and capital assets (e.g. subsurface lines, buildings, land, machinery and equipment).

Total liabilities increased by \$3,313,850 (43.26%) mainly due to the increase in accounts payable of \$3,919,049 resulting from capital projects.

West Valley Sanitation District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

While the Statement of Net Position shows the change in financial position, the Statement of Activities and Changes in Net Position (Table 2) provides answers as to the nature and sources of the changes.

| Table 2 - Change in Net Position | | | | | | |
|--|-----------|-------------------|-----------|-------------------|---------------------|-------------------|
| | 2019 | | 2018 | | Dollar Change | Percent Change |
| Revenues | | | | | | |
| Operating revenue | \$ | 29,702,150 | \$ | 26,348,107 | \$ 3,354,043 | 12.73% |
| Operating Expenses | | | | | | |
| Sewer maintenance | | 2,034,365 | | 4,380,558 | (2,346,193) | -53.56% |
| Service extension | | 2,197,425 | | 3,314,850 | (1,117,425) | -33.71% |
| Sewage disposal | | 9,437,668 | | 7,429,044 | 2,008,624 | 27.04% |
| General and administrative | | 2,185,554 | | 4,164,155 | (1,978,601) | -47.52% |
| Depreciation and amortization | | 5,504,861 | | 5,295,008 | 209,853 | 3.96% |
| Total Operating Expenses | | 21,359,873 | | 24,583,615 | (3,223,742) | -13.11% |
| Operating Income (Loss) | | 8,342,277 | | 1,764,492 | 6,577,785 | 372.79% |
| Nonoperating Revenue (Expense) | | 1,756,093 | | 2,776,409 | (1,020,316) | -36.75% |
| Capital Contributions | | 59,900 | | 48,200 | 11,700 | 24.27% |
| Change in Net Position Before Adjustments | | 10,158,270 | | 4,589,101 | 5,569,169 | 121.36% |
| Prior Period Adjustments | | - | | 190,869 | (190,869) | -100.00% |
| Change in Net Position | \$ | 10,158,270 | \$ | 4,779,970 | \$ 5,378,300 | 112.52% |

The increase in net position of \$10,158,270 was mainly a result of increases to sewer service charges, reimbursements from the City of San Jose, and interest income in addition to decreases in operating costs during the year. Sewer service charges account for 91.39% of total operating revenue as compared to 95.96% in the prior year. The decrease was primarily due to the reimbursements of operating costs from the City of San Jose which was not reported as operating revenue in the prior fiscal year.

CAPITAL ASSETS

Table 3 shows June 30, 2019 capital asset balances as compared to June 30, 2018. Total property, plant and equipment, net of depreciation, account for 47.98% of total assets as of June 30, 2019.

| Table 3 - Capital Assets, Net | | | | | | |
|--------------------------------------|-----------|-------------------|-----------|-------------------|---------------------|----------------------|
| Description | 2019 | | 2018 | | Dollar Change | Percentage Change |
| Land and Easements | \$ | 276,535 | \$ | 276,535 | \$ - | 0.00% |
| Construction in Progress | | 8,681,089 | | 2,479,713 | 6,201,376 | 250.08% |
| Subsurface Lines | | 63,326,628 | | 63,623,808 | (297,180) | -0.47% |
| Building and Building Improvements | | 933,333 | | 977,334 | (44,001) | -4.50% |
| Intangible | | 65,996 | | 72,151 | (6,155) | -8.53% |
| Land Improvements | | 164,090 | | 180,343 | (16,253) | -9.01% |
| Furniture and Fixtures | | 1,076 | | 2,020 | (944) | -46.73% |
| Vehicle and Equipment | | 1,508,073 | | 1,095,976 | 412,097 | 37.60% |
| Total Capital Assets, Net | \$ | 74,956,820 | \$ | 68,707,880 | \$ 6,248,940 | 9.09% |

West Valley Sanitation District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2019

LONG TERM OBLIGATIONS

Table 4 summarizes the changes in long-term obligations over the past two years. The lease revenue bonds account for 73.05% of total long-term obligations.

| Table 4 - Summary of Long-term Obligations | | | | | |
|---|---------------------|---------------------|---------------------|----------------------|--|
| | 2019 | 2018 | Dollar Change | Percentage Change | |
| Revenue Bonds | \$ 4,230,000 | \$ 4,500,000 | \$ (270,000) | -6.00% | |
| State Revolving Fund Loan | - | 149,671 | (149,671) | -100.00% | |
| Net Pension Liability | 824,271 | 1,060,451 | (236,180) | -22.27% | |
| Compensated Absences | 736,160 | 746,903 | (10,743) | -1.44% | |
| Total Long-term Obligations | \$ 5,790,431 | \$ 6,457,025 | \$ (666,594) | -10.32% | |

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District continues to closely monitor its financial and operational performance to ensure constant reliable service to the community at a reasonable cost. The District has budgeted approximately \$102.2 million over the next five years for capital projects benefitting the District's service area. \$58.9 million of which is budgeted to meet the District's portion of capital project needs relating to the San José-Santa Clara Regional Wastewater Facility (RWF), where the District's wastewater collection is conveyed and treated. In efforts to minimize the impacts to rate payers and meet funding commitments, the District plans to fund approximately \$23.0 million of the capital projects through the issuance of long-term tax-exempt bonds along with rate increases averaging 6% over five years starting with FY 2019. Additionally, the District plans to capture savings by refunding approximately \$4.0 million of the existing 2010 Sewer Revenue Refunding Bonds (2010 Bonds). Board approved policies and actions paired with management leadership has contributed to the maintenance of strong debt coverage ratio, high liquidity, and equitable rates, making advantageous for debt issuance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**West Valley Sanitation District
of Santa Clara County**
Statement of Net Position
June 30, 2019

| | 2019 | 2018 |
|--|----------------|----------------|
| Assets | | |
| Current Assets: | | |
| Cash and investments | \$ 39,116,405 | \$ 35,859,475 |
| Accounts receivable | 66,062 | 169,915 |
| Accrued interest receivable | 146,046 | 114,100 |
| Prepaid expenses | 107,467 | 80,379 |
| Other current assets | 13,874 | 7,046 |
| Total Current Assets | 39,449,854 | 36,230,915 |
| Noncurrent Assets: | | |
| Restricted cash and investments | 1,547,072 | 1,323,547 |
| Accounts receivable - future tax roll | 118,510 | 160,983 |
| Net OPEB asset | 232,639 | 73,146 |
| Capacity rights in treatment plant | 39,929,356 | 36,973,307 |
| Capital assets: | | |
| Non-depreciable | 8,957,624 | 2,756,248 |
| Depreciable, net of accumulated depreciation | 65,999,196 | 65,951,632 |
| Total Capital Assets - Net | 74,956,820 | 68,707,880 |
| Total Noncurrent Assets - Net | 116,784,397 | 107,238,863 |
| Total Assets | \$ 156,234,251 | \$ 143,469,778 |
| Deferred Outflows of Resources | | |
| OPEB adjustments | \$ 150,642 | \$ 266,894 |
| Pension adjustments | 1,460,343 | 1,748,314 |
| Total Deferred Outflows of Resources | \$ 1,610,985 | \$ 2,015,208 |

West Valley Sanitation District
of Santa Clara County
Statement of Net Position
June 30, 2019

| | 2019 | 2018 |
|--|----------------|----------------|
| Liabilities | | |
| Current Liabilities: | | |
| Accounts payable | \$ 4,240,870 | \$ 321,821 |
| Accrued salaries and benefits | 255,309 | 241,166 |
| Accrued interest payable | 41,594 | 48,772 |
| Current portion of long-term liabilities | 635,011 | 783,214 |
| Total Current Liabilities | 5,172,784 | 1,394,973 |
| Noncurrent Liabilities: | | |
| Liabilities payable from restricted assets: | | |
| Customer deposits | 325,444 | 274,444 |
| Storm drain deposits | 319,816 | 316,386 |
| Total Liabilities Payable from Restricted Assets | 645,260 | 590,830 |
| Long-term liabilities, net of current portion | 5,155,420 | 5,673,811 |
| Total Noncurrent Liabilities | 5,800,680 | 6,264,641 |
| Total Liabilities | \$ 10,973,464 | \$ 7,659,614 |
| Deferred Inflows of Resources | | |
| Unavailable sewer charges - Hillside | \$ 997,172 | \$ 862,965 |
| Pension adjustments | 3,082,743 | 4,328,820 |
| Total Deferred Inflows of Resources | \$ 4,079,915 | \$ 5,191,785 |
| Net Position | | |
| Net Investment in Capital Assets and Capacity Rights | \$ 110,656,176 | \$ 101,031,516 |
| Unrestricted | 32,135,681 | 31,602,071 |
| Total Net Position | \$ 142,791,857 | \$ 132,633,587 |

**West Valley Sanitation District
of Santa Clara County**
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Operating Revenues: | | |
| Sewer service charges | \$ 27,145,543 | \$ 25,284,438 |
| Sewer service charges - Hillside | 25,358 | 45,271 |
| Permit, inspection and other fees | 257,605 | 323,481 |
| Labor and overhead billed | - | 35,097 |
| Storm drain fees | - | 109,641 |
| Reimbursement from the City of San Jose | 2,150,875 | - |
| Capacity fees | 122,769 | 550,179 |
| Total operating revenues | <u>29,702,150</u> | <u>26,348,107</u> |
| Operating Expenses: | | |
| Sewer maintenance | 2,034,365 | 4,380,558 |
| Service extension | 2,197,425 | 3,314,850 |
| Sewage disposal | 9,437,668 | 7,429,044 |
| General and administrative | 2,185,554 | 4,164,155 |
| Depreciation and amortization | 5,504,861 | 5,295,008 |
| Total operating expenses | <u>21,359,873</u> | <u>24,583,615</u> |
| Operating Income (Loss) | <u>8,342,277</u> | <u>1,764,492</u> |
| Nonoperating Revenues (Expenses): | | |
| Interest income | 1,318,583 | (170,867) |
| Interest expense | (168,640) | (184,365) |
| Connection fees | 502,057 | 2,853,266 |
| Gain (loss) on disposal of property, plant and equipment | 25,304 | 5,332 |
| Other income (expense) | 78,789 | 273,043 |
| Total nonoperating revenues (expenses) | <u>1,756,093</u> | <u>2,776,409</u> |
| Net Income (loss) before contributions | 10,098,370 | 4,540,901 |
| Capital contributions | <u>59,900</u> | <u>48,200</u> |
| Change in net position | <u>10,158,270</u> | <u>4,589,101</u> |
| Beginning net position | 132,633,587 | 127,853,617 |
| Prior period adjustment (GASB 75 OPEB) | - | 190,869 |
| Beginning net position - as adjusted | <u>132,633,587</u> | <u>128,044,486</u> |
| Ending net position | <u>\$ 142,791,857</u> | <u>\$ 132,633,587</u> |

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

**West Valley Sanitation District
of Santa Clara County**
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2019

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Cash Flows from Operating Activities: | | |
| Cash received from customers and users | \$ 27,752,028 | \$ 26,891,725 |
| Cash payments to suppliers | (12,572,292) | (10,281,835) |
| Cash payments to employees | (4,500,459) | (4,797,816) |
| Reimbursement from the City of San Jose | 2,150,875 | - |
| Other cash received (paid) | - | 35,097 |
| Net Cash Provided (Used) by Operating Activities | <u>12,830,152</u> | <u>11,847,171</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| Other income | 78,789 | 273,043 |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>78,789</u> | <u>273,043</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Cash received from capital contributions | 561,957 | 2,901,466 |
| Acquisition and construction of capital assets | (10,707,323) | (10,484,152) |
| Cash received on the sale of capital assets | 25,732 | - |
| Principal paid on long-term debt | (419,671) | (632,706) |
| Interest paid on long-term debt | (175,818) | (189,842) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(10,715,123)</u> | <u>(8,405,234)</u> |
| Cash Flows from Investing Activities: | | |
| Investment income | 1,286,637 | (215,873) |
| Net Cash Provided (Used) by Investing Activities | <u>1,286,637</u> | <u>(215,873)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 3,480,455 | 3,499,107 |
| Cash and Cash Equivalents Beginning | 37,183,022 | 33,683,915 |
| Cash and Cash Equivalents Ending | <u>\$ 40,663,477</u> | <u>\$ 37,183,022</u> |
| Reconciliation of Operating Income to Cash Flows Provided (Used) by Operating Activities: | | |
| Operating Income (Loss) | \$ 8,342,277 | \$ 1,764,492 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 5,504,861 | 5,295,008 |
| Prior period adjustment GASB 75 (OPEB) | - | 190,869 |
| (Increase) decrease in: | | |
| Accounts receivable | 146,326 | 511,855 |
| Due from other governments | - | 60,363 |
| Prepaid expenses | (27,088) | 649 |
| Other current assets | (6,828) | (3,504) |
| Deferred outflows of resources | 404,223 | 5,201,010 |
| Increase (decrease) in: | | |
| Accounts payable | (83,906) | (197,023) |
| Accrued salaries and benefits | 14,143 | 89,704 |
| Deposits | 54,430 | 6,497 |
| Deferred inflows of resources | (1,111,870) | 3,715,071 |
| Net pension obligations | (236,180) | (4,742,154) |
| Net OPEB liability (asset) | (159,493) | (99,221) |
| Compensated absences | (10,743) | 53,555 |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 12,830,152</u> | <u>\$ 11,847,171</u> |

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

**West Valley Sanitation District
of Santa Clara County**
Statement of Fiduciary Net Position
Clean Water Program Agency Fund
June 30, 2019

| | 2019 | 2018 |
|---------------------------------|------|------------|
| Assets | | |
| Restricted cash and investments | \$ - | \$ 420,071 |
| Total Assets | \$ - | \$ 420,071 |
| Liabilities | | |
| Deposits | \$ - | \$ 420,071 |
| Total Liabilities | \$ - | \$ 420,071 |

The District's fiscal responsibility related to the Clean Water Program ended during the fiscal year ended June 30, 2019.

**West Valley Sanitation District
of Santa Clara County**
Notes to Basic Financial Statements
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Reporting Entity

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

The Financial Reporting Entity

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

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

Basis of Presentation

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

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

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

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

**West Valley Sanitation District
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closed its agency fund for the Clean Water Program but reported the statement of fiduciary net position for prior year comparability.

Measurement Focus and Basis of Accounting

Enterprise funds are accounted for on the flow of economic resources measurement focus utilizing full accrual accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

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

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

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

Statement of Net Position

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

- Net Investment in Capital Assets and Capacity Rights - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation. The District applies restricted resources when an

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expense is incurred for purposes for which both restricted and unrestricted net position is available.

- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges for services. Operating expenses for the District include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. During the fiscal year ended June 30, 2019, the District received a \$2,150,875 reimbursement from the City of San Jose for prior year's operating and maintenance costs relating to the RWF. Management determined that this was not a special item as it was defined in the contract with the City of San Jose and was a return of operating costs incurred in prior year. Thus, starting in fiscal year 2019, the return of RWF's operating and maintenance cost will be reported as operating revenue.

Revenues - Connection Fees

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

Budgets and Budgetary Accounting

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

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the

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

Other Postemployment Benefits Other Than Pensions (OPEB)

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

Cash and Investments

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

Investments are 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.

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

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

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

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

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Cash Equivalents

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

Supplies and Tools

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

Capital Assets

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

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

Long-Term Debt

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

Compensated Absences

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

Accounting Estimates

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

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Implemented New Accounting Pronouncements (Change in Accounting Principles)

Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. As of June 30, 2019, this Statement did not have an impact on the District's financial statements.

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

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. As of June 30, 2019, this Statement did not have an impact on the District's financial statements.

Upcoming Accounting and Reporting Changes

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB issued Statement No. 87, *Leases*

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

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information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District is in the process of determining the impact this Statement will have on the 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 District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 90, Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 91, Conduit Debt Obligations

The 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 also 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 commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and improving required note disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2020. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

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NOTE 2 - CASH AND INVESTMENTS

The following summarizes the District's cash and investments at fair value as of June 30, 2019:

| <u>Cash and Investments</u> | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| Unrestricted: | | |
| County Treasury | \$ 38,819,303 | \$ 35,378,395 |
| Cash in banks | 296,402 | 480,380 |
| Cash on hand | 700 | 700 |
| Total Unrestricted Cash and Investments | <u>39,116,405</u> | <u>35,859,475</u> |
| Restricted: | | |
| County Treasury | 1,547,072 | 1,323,547 |
| County Treasury - Clean Water Program Agency Fund | - | 420,071 |
| Total Cash and Investments | <u>\$ 40,663,477</u> | <u>\$ 37,603,093</u> |

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

| <u>Summary by Fund</u> | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| District Operating Fund (Enterprise Fund): | | |
| Unrestricted | \$ 39,116,405 | \$ 35,859,475 |
| Restricted | 1,547,072 | 1,323,547 |
| Clean Water Program Agency Fund | - | 420,071 |
| Total Cash and Investments | <u>\$ 40,663,477</u> | <u>\$ 37,603,093</u> |

Cash Deposits

Bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). The actual bank statement balance of the District's cash in bank exceeded the insured limit by \$566,083 as of June 30, 2019. The difference between the book balance and the bank statement balance was for outstanding checks. None of the District's deposits with financial institutions in excess of FDIC limits were held in uncollateralized accounts. All of the District's accounts met the collateral and categorization requirements as noted in the following paragraph.

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.

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Investments in the County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

Investment Policy

The District has authorized staff to deposit cash with the Santa Clara County Treasurer in a series of pooled accounts with cash from various other governmental entities within the County, for investment purposes. The pooled cash is invested principally in bankers' acceptances, negotiable certificates of deposit and various U.S. Government Agency and commercial notes. Interest earned from such time deposits and investments is allocated quarterly to the District based on its average daily cash balances. The fair values of the accounts at June 30, 2019 and 2018 were provided by the County Treasurer.

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

During the years ended June 30, 2019 and 2018, the investment committee's permissible investments included obligations of the U.S. Government Agencies bills, notes or bonds and certain time deposits, certificates of deposit, bankers' acceptances, commercial paper, repurchase and reverse repurchase agreements, money market funds, medium term corporate notes or deposit notes and municipal obligations.

Risk Disclosures

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

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. The District manages its exposure to interest rate risk by investing its cash in the County Treasury Investment Pool. The pool is managed by the County to minimize the sensitivity of investments to interest rate risk.
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the District invests its cash in the County Treasury Investment Pool which is not subject to a minimum legal rating.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a written policy for custodial credit risk over deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an

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undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. The District has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

- *Concentration of Credit Risk* – The District limits in risks from concentrations by investing in County investment pool which invests in a variety of bankers' acceptances, negotiable certificates of deposit, and various U.S. Government Agency and commercial notes. There were no investments in any one issuer that represented five percent or more of the total investments as of June 30, 2019.

NOTE 3 - CAPITAL ASSETS

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

| Description | Balance June 30, 2018 | Additions | Transfers/ Deletions | Balance June 30, 2019 |
|---|--------------------------|---------------------|-------------------------|--------------------------|
| Non-depreciable: | | | | |
| Land and Easements | \$ 276,535 | \$ - | \$ - | \$ 276,535 |
| Construction in Progress | 2,479,713 | 7,941,273 | (1,739,897) | 8,681,089 |
| Total Non-Depreciable | <u>2,756,248</u> | <u>7,941,273</u> | <u>(1,739,897)</u> | <u>8,957,624</u> |
| Depreciable: | | | | |
| Subsurface Lines | 144,611,300 | 2,117,952 | (134,215) | 146,595,037 |
| Building | 1,890,628 | - | - | 1,890,628 |
| Intangible | 279,431 | - | (9,803) | 269,628 |
| Land Improvements | 435,212 | - | - | 435,212 |
| Furniture & Fixtures | 122,842 | - | - | 122,842 |
| Vehicle & Equipment | 2,983,217 | 639,874 | (301,534) | 3,321,557 |
| Total Depreciable | <u>150,322,630</u> | <u>2,757,826</u> | <u>(445,552)</u> | <u>152,634,904</u> |
| Less Accumulated Depreciation for: | | | | |
| Subsurface Lines | 80,987,492 | 2,415,132 | (134,215) | 83,268,409 |
| Building | 913,294 | 44,001 | - | 957,295 |
| Intangible | 207,280 | 6,155 | (9,803) | 203,632 |
| Land Improvements | 254,869 | 16,253 | - | 271,122 |
| Furniture and Fixtures | 120,822 | 944 | - | 121,766 |
| Vehicle and Equipment | 1,887,241 | 227,349 | (301,106) | 1,813,484 |
| Total Accumulated Depreciation | <u>84,370,998</u> | <u>2,709,834</u> | <u>(445,124)</u> | <u>86,635,708</u> |
| Total Depreciable PPE - Net | <u>65,951,632</u> | <u>47,992</u> | <u>(428)</u> | <u>65,999,196</u> |
| Total PPE - Net | <u>\$ 68,707,880</u> | <u>\$ 7,989,265</u> | <u>\$ (1,740,325)</u> | <u>\$ 74,956,820</u> |

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NOTE 4 - CAPACITY RIGHTS

The District has a contract with the Cities of San Jose and Santa Clara which gives the District rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the District to pay its share of debt service on the treatment plant. The District also pays costs based on 1) allocated flow capacity rights of the total plant capacity and 2) operation and maintenance share based upon actual sewage flow and strengths. The maintenance and operation costs were \$9,437,668 and \$7,429,044, for the years ended June 30, 2019 and 2018, respectively.

The District is also required to pay a portion of plant improvements based on the District's capacity rights percentage. Plant improvement expenditures for the years ending June 30, 2019 and 2018 were \$5,751,076 and \$8,864,538, respectively.

Changes in capacity rights accounts are summarized as follows:

| Capacity Rights in Treatment Plant | Balance | | | Balance June 30, 2019 |
|--|---------------|-------------|------------|--------------------------|
| | June 30, 2018 | Additions | Deletions | |
| Treatment Plant | \$ 78,099,709 | \$6,175,434 | \$ 424,358 | \$ 83,850,785 |
| Land | 2,001,095 | - | - | 2,001,095 |
| Total Capacity Rights in Treatment Plant | 80,100,804 | 6,175,434 | 424,358 | 85,851,880 |
| Less Accumulated Depreciation | (43,127,497) | (2,809,172) | (14,145) | (45,922,524) |
| Total Capacity Rights in Treatment Plant - Net | \$ 36,973,307 | \$3,366,262 | \$ 410,213 | \$ 39,929,356 |

NOTE 5 - LONG-TERM OBLIGATIONS

The District's long-term obligations consisted of the following as of June 30, 2019:

| Long-term Liabilities | Original Issue | Balance June 30, 2018 | Additions | Deductions | Balance June 30, 2019 | Current Portion | Noncurrent Portion |
|----------------------------------|-------------------|--------------------------|--------------|--------------|--------------------------|--------------------|-----------------------|
| Long-term Debt: | | | | | | | |
| 2010 Sewer Revenue Refunding | | | | | | | |
| Bonds, 2.00-4.25%, Due 10/1/2030 | \$6,385,000 | \$ 4,500,000 | \$ - | \$ 270,000 | \$ 4,230,000 | \$285,000 | \$ 3,945,000 |
| State Revolving Fund Loan | | | | | | | |
| 1.803%, Due 6/30/2019 | 6,214,891 | 149,671 | - | 149,671 | - | - | - |
| Total Long-term Debt | | 4,649,671 | - | 419,671 | 4,230,000 | 285,000 | 3,945,000 |
| Net Pension Liability - PERS | | 1,060,451 | 2,711,459 | 2,947,639 | 824,271 | - | 824,271 |
| Compensated Absences | | 746,903 | - | 10,743 | 736,160 | 350,012 | 386,148 |
| Total Long-term Liabilities | | \$ 6,457,025 | \$ 2,711,459 | \$ 3,378,053 | \$ 5,790,431 | \$ 635,012 | \$ 5,155,419 |

2010 Sewer Revenue Refunding Bonds

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

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State Revolving Fund Loan

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

Debt Service Requirements

The District's debt service requirements were as follows as of June 30, 2019:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|---------------------|---------------------|
| 2020 | \$ 285,000 | \$ 161,388 | \$ 446,388 |
| 2021 | 295,000 | 151,238 | 446,238 |
| 2022 | 305,000 | 140,547 | 445,547 |
| 2023 | 320,000 | 129,018 | 449,018 |
| 2024 | 325,000 | 116,518 | 441,518 |
| 2025 - 2029 | 1,845,000 | 371,190 | 2,216,190 |
| 2030 - 2033 | 855,000 | 36,609 | 891,609 |
| Total Debt Service | <u>\$ 4,230,000</u> | <u>\$ 1,106,508</u> | <u>\$ 5,336,508</u> |

NOTE 6 - CONTRIBUTED FACILITIES

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

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

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

In addition to SSAP projects and other recorded subsurface lines, the District maintains an unrecorded inventory of parcels, which are not yet connected to the District's main sewers. This inventory of collectible connection will be billed to future users at the time they connect their

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property to the District's sewer. The connection fees charged to these properties will be based upon the estimated construction costs at the time the sewer connection permit is issued.

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

NOTE 7 - COMMITMENTS AND CONTINGENCIES

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

NOTE 8 - RISK MANAGEMENT

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

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

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2018 (most recent information available):

| | |
|--------------|---------------|
| Assets | \$ 25,703,119 |
| Liabilities | 17,997,369 |
| Net Position | 7,705,750 |
| Revenues | 10,453,268 |
| Expenses | 13,926,188 |

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The following is a summary of the insurance policies in force carried by the District as of June 30, 2019:

| Type of Coverage | Limits | Deductible |
|--|---------------|-------------------------------------|
| General Liability | \$ 15,500,000 | \$ 25,000 |
| Excess General Liability | \$ 10,000,000 | Excess \$15,500,000 |
| Special Form Property | \$ 3,052,525 | \$ 5,000 |
| Worker's Compensation | \$ 750,000 | None |
| Excess Worker's Compensation Liability | Statutory | Excess \$750,000 |
| Auto Physical Damage | \$ 1,183,614 | \$1,000/\$2,000/\$5,000 or \$10,000 |
| Public Entity Pollution Liability | \$ 25,000,000 | \$ 75,000 |
| Cyber Liability | \$ 2,000,000 | \$50,000 Retention |
| Crime Policy | \$ 2,000,000 | \$ 2,500 |
| Identity Theft | \$ 25,000 | None |
| Deadly Weapons Response | \$ 500,000 | None |

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

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

NOTE 9 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

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

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 (age 52 for employees affected by the California Public Employees' Pension Reform Act) with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after 10 years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

**West Valley Sanitation District
of Santa Clara County**
Notes to Basic Financial Statements
June 30, 2019

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

| | <u>Miscellaneous</u> | |
|--|----------------------|------------------|
| | <u>Tier 1</u> | <u>PEPRA</u> |
| Benefit formula | 2.5% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 Years | 5 Years |
| Benefit payments | Monthly for Life | Monthly for Life |
| Retirement age | 55 | 62 |
| Monthly benefits as a % of eligible compensation | 2.0% to 2.5% | 2.00% |
| Required employee contribution rates | 8.000% | 6.250% |
| Required employer contribution rates | 10.609% | 6.842% |

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

| | <u>Miscellaneous</u> |
|-------------|----------------------|
| Active | 28 |
| Transferred | 10 |
| Separated | 3 |
| Retired | 37 |
| Total | <u>78</u> |

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2019, the contributions recognized as part of pension expense for the Plan were as follows:

| | <u>Miscellaneous</u> |
|--------------------------|----------------------|
| Contributions - employer | \$ 360,869 |
| Contributions - employee | 186,037 |
| Total | <u>\$ 546,906</u> |

**West Valley Sanitation District
of Santa Clara County**
Notes to Basic Financial Statements
June 30, 2019

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

| | Proportionate Share of Net Pension Liability/(Asset) |
|---------------|---|
| Miscellaneous | <u>\$ 824,271</u> |

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2019 was as follows:

| | <u>Miscellaneous</u> | <u>Safety</u> | <u>Combined Plans</u> |
|------------------------------|----------------------|-----------------|-----------------------|
| Proportion - June 30, 2018 | 0.02690% | 0.00000% | 0.01069% |
| Proportion - June 30, 2019 | <u>0.02187%</u> | <u>0.00000%</u> | <u>0.00855%</u> |
| Change - Increase/(Decrease) | <u>-0.00503%</u> | <u>0.00000%</u> | <u>-0.00214%</u> |

For the year ended June 30, 2019, the District recognized pension expense of -\$833,418. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Changes of Assumptions | \$ 93,969 | \$ 23,030 |
| Differences between Expected and Actual Experience | 31,626 | 10,762 |
| Differences between Projected and Actual Investment Earnings | 4,075 | - |
| Differences between Employer's Contributions and Proportionate Share of Contributions | - | 668,644 |
| Change in Employer's Proportion | 969,804 | 2,380,307 |
| Pension Contributions Made Subsequent to Measurement Date | <u>360,869</u> | <u>-</u> |
| Total | <u>\$ 1,460,343</u> | <u>\$ 3,082,743</u> |

The District reported \$360,869 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability during the year ended June 30, 2020.

**West Valley Sanitation District
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Notes to Basic Financial Statements
June 30, 2019

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

| Fiscal Year Ending June 30: | Deferred Outflows/ (Inflows) of Resources |
|--|--|
| 2020 | \$ (1,178,712) |
| 2021 | (925,117) |
| 2022 | 127,974 |
| 2023 | (7,414) |
| 2024 | - |
| Thereafter | - |
| Total | \$ (1,983,269) |

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

| | |
|-------------------------------|---------------------------------|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2018 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.50% |
| Payroll Growth | 2.75% |
| Projected Salary Increase | (1) |
| Investment Rate of Return | 7.15% (2) |
| Mortality | (3) |

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

Further details of the Experience Study can be found on the CalPERS website.

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

**West Valley Sanitation District
of Santa Clara County**
Notes to Basic Financial Statements
June 30, 2019

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

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

| <u>Asset Class (a)</u> | <u>Assumed Asset Allocation</u> | <u>Real Return Years 1 - 10 (b)</u> | <u>Real Return Years 11+ (c)</u> |
|------------------------|---|---|--------------------------------------|
| Global Equity | 50.00% | 4.80% | 5.98% |
| Fixed Income | 28.00% | 1.00% | 2.62% |
| Inflation Sensitive | 0.00% | 0.77% | 1.81% |
| Private Equity | 8.00% | 6.30% | 7.23% |
| Real Estate | 13.00% | 3.75% | 4.93% |
| Liquidity | 1.00% | 0.00% | -0.92% |
| Total | <u>100.00%</u> | | |

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

**West Valley Sanitation District
of Santa Clara County**
Notes to Basic Financial Statements
June 30, 2019

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

| | | Miscellaneous |
|-----------------------|----|----------------------|
| 1% Decrease | | 6.15% |
| Net Pension Liability | \$ | 4,215,956 |
| | | |
| Current | | 7.15% |
| Net Pension Liability | \$ | 824,271 |
| | | |
| 1% Increase | | 8.15% |
| Net Pension Liability | \$ | (1,975,510) |

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

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

Benefits Provided

The District provides post-retirement benefits to eligible employees in the form of reimbursement for post-retirement health insurance premiums. Retired employees have a choice of remaining on the District's group health insurance plan or purchasing a plan of their choice. Reimbursement is made quarterly upon receipt of proof of payment. Retirees are eligible for medical benefits if they retire at Age 55+, have 15 years of District service, and retire directly into CalPERS. Pre 7/13/1995 retirements had lower eligibility thresholds (Age 50 with 5 years of CalPERS service). The District provides a benefit up to the monthly premium of the lowest cost District medical plan that is made available to retirees. The benefit can be used for the premiums for the District plan's premiums, as well as private plans (both comprehensive and supplemental). The benefit is a subscriber only premium, regardless of elected coverage tier. The District has not included shared benefit costs in its projections of benefit payments and has not shared benefit costs with inactive employees historically.

**West Valley Sanitation District
of Santa Clara County**
Notes to Basic Financial Statements
June 30, 2019

Employees Covered by Benefit Terms

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

| | |
|------------------------|-----------|
| Active employees | 27 |
| Inactive employees | 18 |
| Total employees | 45 |

Contributions

The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions during the year were \$135,658. Total contributions included in the measurement period were \$266,894. The actuarially determined contribution for the measurement period was \$99,933. The District's contributions were 8.39% of covered employee payroll during the measurement period June 30, 2018 and 4.27% for the fiscal year ended June 30, 2019. Employees are not required to contribute to the plan.

Actuarial Assumptions

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

| | |
|----------------------------------|--|
| Valuation Date: | June 30, 2017 |
| Measurement Date: | June 30, 2018 |
| Actuarial Cost Method: | Entry-Age Normal |
| Amortization Period: | 20 years |
| Asset Valuation Method: | Market value of assets |
| Actuarial Assumptions: | |
| Discount Rate | 7.00% |
| Inflation | 2.75% |
| Salary Increases | 2.875% |
| Healthcare Trend Rate | 7% trending to 3.84% |
| Investment Rate of Return | 7.0%, Net of OPEB plan investment expenses, including inflation |
| Mortality | Mort and Disb Rates_PA Misc |
| Retirement | Rx PA Misc 2.5% @ 55 Rx PA Misc 2% @ 62 |

Discount Rate

The projection of cash flows used to determine the discount rate assumed that the District 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.

**West Valley Sanitation District
of Santa Clara County**
Notes to Basic Financial Statements
June 30, 2019

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:

| <u>Asset Class</u> | <u>Percentage of Portfolio</u> | <u>Long-Term Expected Rate of Return</u> |
|--|------------------------------------|--|
| All Commodities | 3.00% | 4.840% |
| Domestic Fixed Income | 27.00% | 4.870% |
| Global Equity | 57.00% | 8.320% |
| Real Estate Investment Trusts (REITs) | 8.00% | 6.750% |
| Treasury Inflation-Protected Securities (TIPS) | 5.00% | 3.940% |
| Total | <u>100.00%</u> | |

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018 (measurement date), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 (valuation date) for the fiscal year ended June 30, 2019 (reporting date). The following summarizes the changes in the net OPEB liability during the year ended June 30, 2019, for the measurement date of June 30, 2018:

| Fiscal Year Ended June 30, 2019 (Measurement Date June 30, 2017) | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability (Asset) |
|---|---------------------------------|--|---|
| Balance at June 30, 2018 | \$ 3,020,602 | \$ 3,093,748 | \$ (73,146) |
| Service cost | 89,421 | - | 89,421 |
| Interest in Total OPEB Liability | 212,389 | - | 212,389 |
| Employer contributions | - | 266,894 | (266,894) |
| Employer implicit subsidy | - | - | - |
| Employee contributions | - | - | - |
| Balance of diff between actual and exp experience | - | - | - |
| Balance of diff between actual and exp earnings | - | - | - |
| Balance of changes in assumptions | - | - | - |
| Actual investment income | - | 195,970 | (195,970) |
| Administrative expenses | - | (1,561) | 1,561 |
| Benefit payments | (121,605) | (121,605) | - |
| Net changes | <u>180,205</u> | <u>339,698</u> | <u>(159,493)</u> |
| Balance at June 30, 2019 | <u>\$ 3,200,807</u> | <u>\$ 3,433,446</u> | <u>\$ (232,639)</u> |
| Covered Employee Payroll | \$ 3,177,497 | | |
| Total OPEB Liability as a % of Covered Employee Payroll | 100.73% | | |
| Plan Fid. Net Position as a % of Total OPEB Liability | 107.27% | | |
| Service Cost as a % of Covered Employee Payroll | 2.81% | | |
| Net OPEB Liability as a % of Covered Employee Payroll | -7.32% | | |

**West Valley Sanitation District
of Santa Clara County**
Notes to Basic Financial Statements
June 30, 2019

Deferred Inflows and Outflows of Resources

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Difference between actual and expected experience | \$ - | \$ - |
| Difference between actual and expected earnings | 14,984 | - |
| Change in assumptions | - | - |
| OPEB contribution subsequent to measurement date | 135,658 | - |
| Totals | \$ 150,642 | \$ - |

Of the total amount reported as deferred outflows of resources related to OPEB, \$135,658 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the net OPEB liability in the year ended June 30, 2020.

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2019, for the measurement date of June 30, 2018:

| | |
|---|------------------|
| Service cost | \$ 89,421 |
| Interest in TOL | 212,389 |
| Expected investment income | (214,700) |
| Difference between actual and expected earnings | 3,746 |
| Administrative expenses | 1,561 |
| OPEB Expense | \$ 92,417 |

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2019, for the measurement date of June 30, 2018:

| | |
|------------------------------|------------------|
| Net OPEB liability ending | \$ (232,639) |
| Net OPEB liability beginning | 73,146 |
| Change in net OPEB liability | (159,493) |
| Changes in deferred outflows | (14,984) |
| Employer contributions | 266,894 |
| OPEB Expense | \$ 92,417 |

**West Valley Sanitation District
of Santa Clara County**
Notes to Basic Financial Statements
June 30, 2019

Sensitivity to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District'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 | | |
|----------------------------|-----------------------|--------------|-----------------------|
| | (1% Decrease) | 7.00% | (1% Increase) |
| Net OPEB Liability (Asset) | \$ 65,000 | \$ (232,639) | \$ (650,000) |

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District'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 | | |
|----------------------------|-----------------------|-----------------------------|-----------------------|
| | (1% Decrease) | 7% trending to 3.84% | (1% Increase) |
| Net OPEB Liability (Asset) | \$ (500,000) | \$ (232,639) | \$ (200,000) |

REQUIRED SUPPLEMENTARY INFORMATION

**West Valley Sanitation District
of Santa Clara County**
Schedule of Contributions for Pension Plans
June 30, 2019

CalPERS Miscellaneous Plan

| Fiscal Year Ended | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|---------------------|---------------------|-----------------------|---------------------|---------------------|
| Contractually Required Contributions | \$ 396,060 | \$ 549,283 | \$ 373,200 | \$ 351,191 | \$ 360,869 |
| Contributions in Relation to Contractually Required Contributions | 396,060 | 549,283 | 5,488,729 | 351,191 | 360,869 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ (5,115,529) | \$ - | \$ - |
| Covered Payroll | \$ 2,834,507 | \$ 2,912,605 | \$ 3,074,111 | \$ 2,953,876 | \$ 3,103,293 |
| Contributions as a Percentage of Covered Payroll | 13.97% | 18.86% | 178.55% | 11.89% | 11.63% |

Notes to Schedule:

Valuation Date: June 30, 2017
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
3.8 Years Remaining Amortization Period
Inflation Assumed at 2.5%
Investment Rate of Returns set at 7.15%
CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.
The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.
The CalPERS mortality assumptions was adjusted in fiscal year 2019.

**West Valley Sanitation District
of Santa Clara County**
Schedule of Proportionate Share of Net Pension Liability
June 30, 2019

| CalPERS Miscellaneous Plan | | | | | |
|---|----------------|----------------|----------------|---------------|---------------|
| Fiscal Year Ended | 2015 | 2016 | 2017 | 2018 | 2019 |
| Proportion of Net Pension Liability | 0.14035% | 0.16754% | 0.16704% | 0.02690% | 0.02187% |
| Proportionate Share of Net Pension Liability | \$ 3,468,671 | \$ 4,596,359 | \$ 5,802,605 | \$ 1,060,451 | \$ 824,271 |
| Covered Payroll | \$ 2,738,959 | \$ 2,834,507 | \$ 2,912,605 | \$ 3,074,111 | \$ 2,953,876 |
| Proportionate Share of NPL as a % of Covered Payroll | 126.64% | 162.16% | 199.22% | 34.50% | 27.90% |
| Plan's Fiduciary Net Position as a % of the TPL | 81.15% | 78.65% | 73.77% | 95.60% | 96.71% |

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

The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.

The CalPERS mortality assumptions was adjusted in fiscal year 2019.

**West Valley Sanitation District
of Santa Clara County**
Schedule of Contributions for Other Postemployment Benefits
June 30, 2019

| Fiscal Year Ended | 2018 | 2019 |
|---|--------------|--------------|
| Total OPEB liability | | |
| Service cost | \$ 86,922 | \$ 89,421 |
| Interest | 202,478 | 212,389 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | - | - |
| Changes of assumptions | - | - |
| Benefit payments | (115,894) | (121,605) |
| Implicit subsidy fulfilled | (32,955) | (30,194) |
| Net change in Total OPEB Liability | 140,551 | 150,011 |
| Total OPEB Liability - beginning | 2,880,051 | 3,020,602 |
| Total OPEB Liability - ending | \$ 3,020,602 | \$ 3,170,613 |
| Plan fiduciary net position | | |
| Employer contributions | \$ 219,260 | \$ 266,894 |
| Employer implicit subsidy | 32,955 | - |
| Employee contributions | - | - |
| Net investment income | 199,056 | 195,970 |
| Difference between estimated and actual earnings | - | - |
| Benefit payments | (115,894) | (121,605) |
| Implicit subsidy fulfilled | (32,955) | (30,194) |
| Other | - | - |
| Administrative expense | (1,304) | (1,561) |
| Net change in plan fiduciary net position | 301,118 | 309,504 |
| Plan fiduciary net position - beginning | 2,792,630 | 3,093,748 |
| Plan fiduciary net position - ending | \$ 3,093,748 | 3,403,252 |
| Net OPEB liability (asset) | \$ (73,146) | (232,639) |
| Plan fiduciary net position as a percentage of the total OPEB liability | 102.42% | 107% |
| Covered Employee Payroll | \$ 3,207,131 | \$ 3,179,406 |
| Net OPEB liability as a percentage of covered employee payroll | -2.28% | -7.32% |
| Total OPEB liability as a percentage of covered employee payroll | 94.18% | 99.72% |

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.

There were no changes in benefit terms.

There were no changes in discount rates, trend rates or assumptions.

**West Valley Sanitation District
of Santa Clara County**
Schedule of Changes in Net OPEB Liability
June 30, 2019

| <u>Fiscal Year Ended</u> | <u>2018</u> | <u>2019</u> |
|--|---------------------|--------------------|
| Actuarially determined contribution (ADC) | \$ 101,215 | \$ 99,933 |
| Less: actual contribution in relation to ADC | (266,894) | (135,658) |
| Contribution deficiency (excess) | <u>\$ (165,679)</u> | <u>\$ (35,725)</u> |
| | | |
| Covered employee payroll | \$ 3,179,406 | \$ 3,177,497 |
| Contrib. as a % of covered employee payroll | 8.39% | 4.27% |

Notes to Schedule:

Assumptions and Methods

| | |
|---------------------------|---|
| Valuation Date: | June 30, 2017 |
| Measurement Date: | June 30, 2018 |
| Actuarial Cost Method: | Entry-Age Normal Cost |
| Amortization Period: | 20 years |
| Asset Valuation Method: | Market value of assets |
| Actuarial Assumptions: | |
| Discount Rate | 7.00% |
| Inflation | 2.750% |
| Salary Increases | 2.875% |
| Healthcare Trend Rate | 7% trending to 3.84% |
| Investment Rate of Return | 7.0%, Net of OPEB plan investment expenses, including inflation |
| | |
| Mortality | Mort and Disb Rates_PA Misc |
| Retirement | Rx PA Misc 2.5% @ 55 Rx PA Misc 2% @ 62 |

Other Notes

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

There were no changes in benefit terms.

There were no changes in discount rates, trend rates or assumptions.

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

OTHER INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
of the West Valley Sanitation District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Valley Sanitation District (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 4, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not



express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

C & A LLP

November 4, 2019
San Jose, California