BAY AREA WATER SUPPLY
& CONSERVATION AGENCY

AUDITED FINANCIAL STATEMENTS &
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2019

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

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

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BAY AREA WATER SUPPLY & CONSERVATION AGENCY

ELECTED OFFICIALS AND MANAGEMENT TEAM
JUNE 30, 2019

BOARD OF DIRECTORS

Jay Benton, Town of Hillsborough
Randy Breault, Guadalupe Valley Water District
Tom Chambers, Westborough
Alison Cormack, City of Palo Alto
Debi Davis, City of Santa Clara
Sam Hindi, Estero Municipal Improvement District
Steve Jordan, Purissima Hills Water District
Mike Kasperzak, Mountain View
Kirsten Keith, City of Menlo Park
Rob Kuta, California Water Service Co.
Gustav Larsson, City of Sunnyvale
Sam Liccardo, City of San Jose
Juslyn Manalo, City of Daly City
Al Mendall, City of Hayward
Chris Mickelsen, Coastside Count Water District
Carmen Montano, City of Milpitas
Larry Moody, City of East Palo Alto
Irene O'Connell, City of San Bruno
Rosalie O'Mahony, City of Burlingame
Tom Piccolotti, North Coast County Water District
Barbara Pierce, City of Redwood City
Dan Quigg, City of Millbrae
Lou Vella, Mid-Peninsula Water District
John Weed, Alameda County Water District
Sepi Wood, City of Brisbane
Tom Zigterman, Stanford University

MANAGEMENT TEAM

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

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CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Bay Area Water Supply & Conservation Agency (the "Agency"), which comprise the statement of financial position as of June 30, 2019, the related statements of activities, functional expenses and cash flows for the year then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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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 business-type activities of the Bay Area Water Supply & Conservation Agency, as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedule of contributions - pension plans, schedule of proportionate share of net pension liability, schedule of contributions for OPEB plans, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management

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and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2019 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

C & A LLP

November 13, 2019
San Jose, California

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BASIC FINANCIAL STATEMENTS

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS		
Current Assets:		
Cash and investments	$	2,346,538
Operating assessments receivable		99,409
Revenue bond surcharges receivable		2,169,451
Subscription Conservation programs receivables: Washing Machine Rebate		6,309
Subscription Conservation programs receivables: other		68,798
Other receivables		125
Prepaid expenses		62,851
Total Current Assets		4,753,481
Noncurrent Assets:		
Property and equipment - net		4,094
Investment with fiscal agent		29,224,364
Prepaid future capital facility obligations		292,917,383
Deposit		14,067
Total Noncurrent Assets		322,159,908
TOTAL ASSETS	$	326,913,389
DEFERRED OUTFLOWS OF RESOURCES		
OPEB adjustments	$	112,158
Pension contributions and adjustments		311,604
Total Deferred Inflows of Resources	$	423,762
LIABILITIES		
Current Liabilities:		
Accounts payable	$	188,058
Accrued expenses		33,185
Accrued interest		3,036,950
Unearned revenue		3,562
Current portion of long-term liabilities		14,470,700
Total Current Liabilities		17,732,455
Noncurrent Liabilities:		
Long-term liabilities - net of current portion		293,122,273
TOTAL LIABILITIES	$	310,854,728
DEFERRED INFLOWS OF RESOURCES		
OPEB adjustments	$	47,901
Pension contributions and adjustments		22,735
Total Deferred Inflows of Resources	$	70,636
NET POSITION		
Net Investment in Capital Assets	$	4,094
Restricted for Debt Service		15,189,862
Unrestricted		1,217,831
TOTAL NET POSITION	$	16,411,787

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

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OPERATING REVENUE:	
Assessments	$ 3,579,400
Revenue bond surcharges	24,709,914
Subscription Conservation programs	702,779
Total operating revenue	28,992,093
OPERATING EXPENSES:	
Consultants	1,961,186
Administration	2,060,926
Depreciation	1,248
Subscription Conservation programs	701,946
Capital facility surcharge amortization	13,128,127
Total operating expenses	17,853,433
OPERATING INCOME	11,138,660
NON-OPERATING REVENUES (EXPENSES):	
Interest expense	(12,201,490)
Interest income	2,776,871
Total non-operating revenues	(9,424,619)
CHANGE IN NET POSITION	1,714,041
NET POSITION - BEGINNING	14,697,746
NET POSITION - ENDING	$ 16,411,787

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

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from assessments	$ 3,607,442
Cash received from revenue bond surcharges	24,510,959
Cash received from Subscription Conservation programs	678,390
Cash paid for employee services and other operating expenses	(4,399,372)
Cash paid for Subscription Conservation programs	(656,642)
Net Cash Provided by (Used for) Operating Activities	23,740,777
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Interest paid on revenue bond	(12,153,702)
Principal payments on revenue bond	(12,130,000)
Net Cash Provided by (Used for) Capital Related Financing Activities	(24,283,701)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income and realized gains (losses) - net	848,023
Purchase of investment	(815,374)
Net Cash Provided by (Used for) Investing Activities	32,649
NET INCREASE IN CASH AND CASH EQUIVALENTS	(510,275)
CASH AND CASH EQUIVALENTS - BEGINNING	2,856,813
CASH AND CASH EQUIVALENTS - ENDING	$ 2,346,538
Reconciliation of operating income to net cash provided by (used for) operating activities	
Operating income (loss)	$ 11,138,660
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	1,248
Amortization of prepaid capacity charges	13,128,127
Amortization of pensions deferrals	53,865
Amortization of OPEB deferrals	(258)
Change in operating assets and liabilities:	
(Increase) decrease in accounts receivable	28,042
(Increase) decrease in surcharges receivable	(198,955)
(Increase) decrease in Subscription Conservation programs receivables: other	(23,539)
(Increase) decrease in prepaid expenses	(5,742)
Increase (decrease) in accounts payable	(196,933)
Increase (decrease) in accrued interest	(192,733)
Increase (decrease) in accrued compensated absences	9,845
Increase (decrease) in unearned revenue	(850)
Net Cash Provided by (Used for) Operating Activities	$ 23,740,777
SUMMARY OF CASH AND INVESTMENTS:	
Cash and equivalents	2,346,538
Investments	29,224,364
Total cash and investments	$ 31,570,902

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

NOTE 1 - SUMMARY OF ORGANIZATION

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

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

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

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

Deferred outflow of resources is defined as a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. A deferred inflow of resources is defined as an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time.

When applicable, unamortized portions of the gain and loss on refunding debt are reported as deferred inflows and deferred outflows of resources, respectively. Deferred outflows and inflows of resources are reported for the changes related to benefit plans. In addition, when an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

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

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

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

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

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

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

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

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

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

2. ***Statement of Revenues, Expenses, and Changes in Net Position***

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Revenues are reported by major source with operating revenues classified from BAWSCA's primary operating resources and all other revenue reported as non-operating. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating.

Budgets and Budgetary Accounting

BAWSCA must adopt a budget prior to July 1 of each year for the following fiscal year. The budget for the fiscal year beginning July 1, 2018, was adopted by the Board of Directors in May of 2018.

Cash & Cash Equivalents

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

Investments

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

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

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

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

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

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

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

Receivables

Receivables include amounts due from member assessments, water conservation programs, grants and other resources. All receivables are current and reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was zero as of June 30, 2019.

Capital Assets

Capital Assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available. The Agency depreciates capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. The Agency depreciates using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Agency has assigned the useful lives listed below to capital assets:

Equipment	5 years
Furniture and fixtures	7 years

Long-Term Debt

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

Compensated Absences

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

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Agency's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2017. For this report, the following timeframes are used for BAWSCA's pension plans:

Valuation Date (VD) .... June 30, 2017
Measurement Date (MD) .... June 30, 2018
Measurement Period (MP) .... June 30, 2017 to June 30, 2018

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 Agency of BAWSCA Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Revenue and Expenditure Recognition

Program revenues are recorded when the expense is recorded. All pass-through revenues and expenses are reported separately at gross, in accordance with accounting principles generally accepted in the United States of America.

Accounting Estimates

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

Implemented New Accounting Pronouncements

GASB Statement No. 83, *Certain Asset Retirement Obligations.* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. As of June 30, 2019, this Statement did not have an impact on the Agency'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 Agency's financial statements.

Upcoming New Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities.* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The Agency doesn't believe this statement will have a significant impact on the Agency's financial statements.

GASB issued Statement No. 87, *Leases*. - The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for BAWSCA's fiscal year ending June 30, 2021. The Agency doesn't believe this statement will have a significant impact on the Agency's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a 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 Agency doesn't believe this statement will have a significant impact on the Agency'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 Agency doesn't believe this statement will have a significant impact on the Agency'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 Agency doesn't believe this statement will have a significant impact on the Agency's financial statements.

NOTE 3 - CASH AND INVESTMENTS

The following summarizes deposits as of June 30, 2019:

Cash and Investments	Cash and Cash Equivalents Available for Operations	Restricted	Total
Cash Deposits:			
Cash in Banks	$ 246,011	$ -	$ 246,011
Petty Cash	265	-	265
Total Cash Deposits	246,276	-	246,276
Investments:			
California Local Agency Investment Fund	2,100,262	-	2,100,262
Brokerage Accounts/Cash with Fiscal Agents	-	29,224,364	29,224,364
Total Investments	2,100,262	29,224,364	31,324,626
Total Cash and Investments	$ 2,346,538	$ 29,224,364	$ 31,570,902

Cash in Banks

Cash balances in banks are insured up to $250,000 per insured bank by the Federal Deposit Insurance Corporation ("FDIC"). As of June 30, 2019, the Agency's bank balances did not exceed FDIC coverage.

Fair Value Measurements

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

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

The Agency has the following recurring fair value measurements as of June 30, 2019:

				Maturities			
Investment Type	Rating	Fair Value	Input Level	12 Months or Less	13 - 24 Months	25 - 60 Months	Concentrations
Money Market Accounts	n/a	$ 16,223,169	n/a	$ 16,223,169	$ -	$ -	51.79%
LAIF	n/a	2,100,262	Level 2	2,100,262	-	-	6.70%
U.S. Obligations	Aaa	13,001,195	Level 1	3,476,556	3,739,915	5,784,726	41.50%
Total Investments		$ 31,324,626		$ 21,799,987	$ 3,739,915	$ 5,784,726	100.00%

Collateral and Categorization Requirements

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

Investment Policy

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

Local Agency Investment Fund

BAWSCA participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates. LAIF allows local agencies such as BAWSCA to participate in a Pooled Money Investment Account managed by the State Treasurers Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value.

The total amount invested by all public agencies in LAIF, as of June 30, 2019, was approximately $105.7 billion. Of that amount, 99.26% is invested in non-derivative financial products and 0.74% in structured notes and asset-backed securities.

Cash with Fiscal Agent

BAWSCA also had cash with fiscal agent totaling $29,224,364. Cash with fiscal agent represents deposits in trust accounts, and in BAWSCA's name, from revenue bond proceeds remaining after issuance, capital facility surcharges collected to repay the revenue bonds, and minimum reserve requirements established by bond covenants.

General Reserve

BAWSCA maintains a general reserve (the "General Reserve") which is invested in LAIF. At the end of each year, excess funds are to be transferred into the General Reserve. BAWSCA's general reserve was $1,115,848 as of June 30, 2019.

Risk Disclosures

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

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates.

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

- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the BAWSCA's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. BAWSCA does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

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

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

NOTE 4 - OPERATING LEASES

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

The future minimum lease payments were as follows as of June 30, 2019:

Fiscal Year	Minimum Lease Payments
2020	$ 162,699
2021	167,580
2022	42,202
Total Minimum Lease Payments	$ 372,481

Rent expense for the fiscal year ended June 30, 2019 was $162,642.

NOTE 5 - LONG-TERM Liability

BAWSCA's long-term liabilities consisted of the following as of June 30, 2019:

Long-term Liabilities	Balance July 01, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
2013 Revenue Bonds	$ 290,010,000	$ -	$ 12,130,000	$ 277,880,000	$ 12,525,000
2013 Revenue Bonds Premium - Net	30,096,960	-	1,881,060	28,215,900	1,881,060
Net OPEB Liability	897,951	241,960	284,790	855,121	-
Net Pension Liability	568,862	371,784	386,078	554,568	-
Compensated Absences	77,539	9,845	-	87,384	64,640
Total Long-term Liabilities	$ 321,651,312	$ 623,589	$ 14,681,928	$ 307,592,973	$ 14,470,700

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

BAWSCA's Revenue Bonds debt service requirements were as follows as of June 30, 2019:

Year Ending June 30,	Principal	Interest	Total
2020	12,525,000	11,935,787	24,460,787
2021	12,950,000	11,498,915	24,448,915
2022	13,400,000	10,986,383	24,386,383
2023	13,975,000	10,409,132	24,384,132
2024	14,555,000	9,799,060	24,354,060
2025-2029	82,905,000	38,605,071	121,510,071
2030-2034	103,925,000	17,071,459	120,996,459
2035	23,645,000	512,965	24,157,965
Total Debt Service	$ 277,880,000	$ 110,818,772	$ 388,698,772

NOTE 6 - EMPLOYEE RETIREMENT BENEFITS

General Information about the Pension Plans

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

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

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

	Miscellaneous	
	Tier 1	PEPRA
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.00%	2.00%
Required employee contribution rates	7.000%	7.000%
Required employer contribution rates	11.154%	7.557%

Employees Covered - At June 30, 2019, the following employees were covered by the benefit terms for the Plan at the valuation date of June 30, 2017:

	Miscellaneous
Active	7
Transferred	1
Separated	5
Retired	3
Total	16

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

	Miscellaneous
Contributions - employer	$ 114,356
Contributions - employee	79,358
Total	$ 193,714

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

As of June 30, 2019, the Agency reported net pension liabilities for its proportionate shares of the net pension liability totaling $554,568.

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 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 Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The Agency's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2019 was as follows:

	Miscellaneous	**Safety**	**Combined Plans**
Proportion - June 30, 2018	0.01443%	0.00000%	0.00574%
Proportion - June 30, 2019	0.01472%	0.00000%	0.00576%
Change - Increase/(Decrease)	0.00028%	0.00000%	0.00002%

For the year ended June 30, 2019, the Agency recognized pension expense of $220,935. At June 30, 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes of Assumptions	$ 63,222	$ 15,495
Differences between Expected and Actual Experience	21,278	7,241
Differences between Projected and Actual Investment Earnings	2,742	-
Differences between Employer's Contributions and Proportionate Share of Contributions	30,353	-
Change in Employer's Proportion	79,653	-
Pension Contributions Made Subsequent to Measurement Date	114,356	-
Total	$ 311,604	$ 22,736

The Agency reported $114,356 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

Fiscal Year Ending June 30:	**Deferred Outflows/ (Inflows) of Resources**
2020	$ 105,534
2021	73,498
2022	468
2023	(4,988)
2024	-
Thereafter	-
Total	$ 174,512

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

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each 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 cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated 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.

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
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	100.00%		

(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.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount

Rate - The following presents the Agency's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	$ 971,795
Current	7.15%
Net Pension Liability	$ 568,862
1% Increase	8.15%
Net Pension Liability	$ 235,145

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

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The Agency administers a single-employer defined-benefit postemployment healthcare plan (the OPEB plan). Eligibility requirements vary by retirement date. Dependent are eligible to enroll, and benefits continue to surviving spouses. The OPEB plan's audited financial statements are available at https://www.calpers.ca.gov/

Benefits Provided

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

Employees Covered by Benefit Terms

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

Active employees	8
Inactive employees	3
Total employees	11

Contributions

The Agency makes contributions based on an actuarially determined rate and are approved by the authority of the Agency's Board. Total contributions during the year were $112,158. The actuarially determined contribution during the year was $152,091. The Agency's contributions were 9.66% of covered payroll during the fiscal year ended June 30, 2019. Employees are not required to contribute to the plan.

Actuarial Assumptions

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

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2018
Actuarial Cost Method:	Entry-Age Normal
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	5.75%
Inflation	2.75%
Payroll Growth	3.000%
Healthcare Trend Rate	5.50%
Investment Rate of Return	5.75%, Net of OPEB plan investment expenses, including inflation
Mortality	2014 CalPERS Active Mortality for Miscellaneous employees
Retirement	CalPERS 2% @ 55 Rates for Public Agency

Discount Rate

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

Long-Term Expected Rate of Return

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

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

Asset Class	Percentage of Portfolio	Long-Term Expected Rate of Return
Global Equity	40.00%	5.250%
Fixed Income	39.00%	0.990%
Treasury Securities	10.00%	0.450%
Real Estate Investment Trusts (REITs)	8.00%	4.500%
Commodities	3.00%	3.900%
Total	100.00%	

Net OPEB Liability

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

Fiscal Year Ended June 30, 2019 (Measurement Date June 30, 2018)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30,2018	$ 1,349,506	$ 451,555	$ 897,951
Service cost	78,775	-	78,775
Interest in Total OPEB Liability	76,325	-	76,325
Employer contributions	-	124,732	(124,732)
Employer implicit subsidy	-	-	-
Employee contributions	-	-	-
Balance of diff between actual and exp experience	(41,942)	-	(41,942)
Balance of diff between actual and exp earnings	-	-	-
Balance of changes in assumptions	-	-	-
Actual investment income	-	31,526	(31,526)
Administrative expenses	-	(269)	269
Benefit payments	(44,227)	(44,227)	-
Net changes	68,931	111,762	(42,831)
Balance at June 30, 2019	$ 1,418,437	$ 563,317	$ 855,120

Covered Employee Payroll	$ 1,160,975
Total OPEB Liability as a % of Covered Employee Payroll	122.18%
Plan Fid. Net Position as a % of Total OPEB Liability	39.71%
Service Cost as a % of Covered Employee Payroll	6.79%
Net OPEB Liability as a % of Covered Employee Payroll	73.66%

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	$ -	$ 38,058
Difference between actual and expected earnings	-	9,843
Change in assumptions	-	-
OPEB contribution subsequent to measurement date	112,158	-
Totals	$ 112,158	$ 47,901

Of the total amount reported as deferred outflows of resources related to OPEB, $112,158 resulting from Agency's 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. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2020	$ (6,793)
2021	(6,793)
2022	(6,793)
2023	(5,000)
2024	(3,884)
Thereafter	(18,638)
Total	$ (47,901)

OPEB Expense

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

Service cost	$ 78,775
Interest in TOL	76,325
Expected investment income	(25,957)
Other	-
Employee contributions	-
Difference between actual and expected experience	(3,884)
Difference between actual and expected earnings	(2,910)
Change in assumptions	-
Administrative expenses	269
OPEB Expense	**$ 122,619**

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

Net OPEB liability ending	$	855,120
Net OPEB liability begining		(897,951)
Change in net OPEB liability		(42,831)
Changes in deferred outflows		2,659
Changes in deferred inflows		38,059
Employer contributions and implict subsidy		124,732
OPEB Expense	**$**	**122,619**

Sensitivity to Changes in the Discount Rate

The net OPEB liability of the Agency, as well as what the Agency'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	**5.75%**	**1% Increase**
Net OPEB Liability (Asset)	$ 1,119,507	$ 855,120	$ 647,461

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the Agency, as well as what the Agency'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	**5.50%**	**1% Increase**
Net OPEB Liability (Asset)	$ 642,562	$ 855,120	$ 1,123,722

NOTE 8 - RISK MANAGEMENT

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

As a member of the SDRMA, BAWSCA participated in the general and auto liability, public officials' and employees' errors and omissions and employment practices liability program, which retained coverage of up to $2.5 million. BAWSCA's general liability deductible is $500 for general liability property damage, and $1,000 for auto liability property damage. BAWSCA is insured for $200 million of each worker's compensation claim through the SDRMA pool. Excess workers' compensation employer's liability is covered up to $5 million. There were no accrued losses for insurance claims as of June 30, 2019. There were no settlements that exceeded insurance coverage for fiscal year ended June 30, 2019.

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

Condensed financial information for SDRMA for the fiscal year ended June 30, 2018 is as follows:

Total Assets & Deferred Outflows	$ 112,825,268
Total Liabilities and Deferred Inflows	58,240,535
Net Assets	$ 54,584,733
Total Revenues	$ 68,937,153
Total Expenses	64,541,691
Change in Net Assets	$ 4,395,462

REQUIRED SUPPLEMENTARY INFORMATION

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BAY AREA WATER SUPPLY & CONSERVATION AGENCY

SCHEDULE OF CONTRIBUTIONS - PENSION PLANS
JUNE 30, 2019

Miscellaneous Plan

Fiscal Year Ended	2015	2016	2017	2018	2019
Contractually Required Contributions	$ 92,873	$ 93,330	$ 105,314	$ 124,761	$ 114,356
Contributions in Relation to Contractually Required Contributions	92,873	93,330	105,314	124,761	114,356
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	**$ 715,210**	**$ 758,766**	**$ 984,528**	**$ 1,038,796**	**$ 1,160,975**
Contributions as a % of Covered Payroll	**12.99%**	**12.30%**	**10.70%**	**12.01%**	**9.85%**

Safety Plan

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.
The covered payroll in this schedule is reported by fiscal year.

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
JUNE 30, 2019

Miscellaneous Plan

Fiscal Year Ended	2015	2016	2017	2018	2019
Proportion of Net Pension Liability (Safety and Misc)	0.00516%	0.00537%	0.00533%	0.00574%	0.00576%
Proportion of Net Pension Liability (Mis Plan Only)	0.01300%	0.01344%	0.01327%	0.01443%	0.01472%
Proportionate Share of Net Pension Liability	$ 321,291	$ 368,743	$ 460,813	$ 568,862	$ 554,568
Covered Payroll	$ 694,378	$ 715,210	$ 758,766	$ 984,528	$ 1,038,796
Proportionate Share of NPL as a % of Covered Payroll	**46.27%**	**51.56%**	**60.73%**	**57.78%**	**53.39%**
Plan's Fiduciary Net Position as a % of the TPL	**81.15%**	**85.57%**	**81.49%**	**80.58%**	**82.33%**

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.
The covered payroll in this schedule is reported by measurement date

SCHEDULE OF CONTRIBUTIONS FOR OPEB PLANS
JUNE 30, 2019

Fiscal Year Ended	**2018**	**2019**
Actuarially determined contribution (ADC)	$ 153,393	$ 152,091
Less: actual contribution in relation to ADC	(124,732)	(112,158)
Contribution deficiency (excess)	$ 28,661	$ 39,933
Covered employee payroll	$ 1,038,796	$ 1,160,975
Contrib. as a % of covered employee payroll	12.01%	9.66%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2018
Actuarial Cost Method:	Entry-Age Normal Cost
Amortization Period:	20 years
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	5.75%
Inflation	2.750%
Salary Increases	3.000%
Healthcare Trend Rate	5.50%
Investment Rate of Return	5.75%, Net of OPEB plan investment expenses, including inflation
Mortality	2014 CalPERS Active Mortality for Miscellaneous employees
Retirement	CalPERS 2% @ 55 Rates for Public Agency Miscelleaneous

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 not 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.

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

SCHEDULE OF CHANGES IN NET OPEB LIABILITY
JUNE 30, 2019

Fiscal Year Ended	2018	2019
Total OPEB liability		
Service cost	$ 76,481	$ 78,775
Interest	70,409	76,325
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(41,942)
Changes of assumptions	-	-
Benefit payments	(43,763)	(44,227)
Implicit subsidy fullfilled	-	-
Net change in Total OPEB Liability	103,127	68,931
Total OPEB Liability - beginning	1,246,379	1,349,506
Total OPEB Liability - ending	$ 1,349,506	$ 1,418,437
Plan fiduciary net position		
Employer contributions	$ 147,026	$ 124,732
Employer implict subsidy	-	-
Employee contributions	-	-
Net investment income	27,435	31,526
Difference between estimated and actual earnings	-	-
Benefit payments	(43,763)	(44,227)
Implicit subsidy fullfilled	-	-
Other	-	-
Administrative expense	(206)	(269)
Net change in plan fiduciary net position	130,492	111,762
Plan fiduciary net position - beginning	321,063	451,555
Plan fiduciary net position - ending	$ 451,555	$ 563,317
Net OPEB liability (asset)	$ 897,951	855,120
Plan fiduciary net position as a percentage of the total OPEB liability	33.46%	39.71%
Covered Employee Payroll	$ 984,528	$ 1,038,796
Net OPEB liability as a percentage of covered employee payroll	91.21%	82.32%
Total OPEB liability as a percentage of covered employee payroll	137.07%	136.55%

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 not changes in benefit terms.

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

SUPPLEMENTAL INFORMATION

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BAY AREA WATER SUPPLY & CONSERVATION AGENCY

SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual (Budget Basis)	Variance
OPERATING REVENUE	$ 3,901,085	$ 3,901,085	$ 3,579,400	$ (321,685)
OPERATING EXPENSES:				
Consultants:				
Reliability	1,366,080	1,791,080	1,619,651	171,429
Fair pricing	311,000	301,000	222,591	78,409
Administration	110,000	130,000	118,944	11,056
Subtotal consultants	1,787,080	2,222,080	1,961,186	260,894
Administration:				
Salaries and benefits	1,673,955	1,673,955	1,684,911	(10,956)
Operating expenses	376,850	377,900	349,523	28,377
Subtotal administration	2,050,805	2,051,855	2,034,434	17,421
Other operating expenses	63,200	4,650	462	4,188
Total operating expenses	3,901,085	4,278,585	3,996,082	282,503
OPERATING INCOME (LOSS)	-	(377,500)	(416,682)	(39,182)
NON-OPERATING REVENUE (EXPENSE):				
Interest income	-	-	55,659	55,659
Total non-operating revenue (expense)	-	-	55,659	55,659
CHANGE IN NET POSITION	-	(377,500)	(361,023)	16,477
NET POSITION - BEGINNING	2,580,186	2,580,186	2,580,186	-
NET POSITION - ENDING	$ 2,580,186	$ 2,202,686	$ 2,219,163	$ 16,477

RECONCILIATION OF BUDGET BASIS TO GAAP:	
Changes in Net Position - Budget Basis	$ (361,023)
Change in compensated absences	(9,845)
Beginning budgetary net position differences	37,422
Pension expense adjustments	(53,865)
OPEB expense adjustments	258
Conservation program revenue	702,779
Conservation program expenses	(701,946)
Capital facility surcharge amortization	(13,128,127)
Revenue bond surcharges	24,709,914
Revenue bond interest income	2,721,212
Revenue bond interest expense	(12,201,490)
Depreciation	(1,248)
Changes in Net Position - GAAP Basis	1,714,041
Net Position - Beginning Adjusted	14,697,746
Net Position - Ending	$ 16,411,787

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2019

	Subscription Fund	Home Water Use Reports Fund	Revenue Bond Fund	Operating Fund	Total
Assets					
Current Assets:					
Cash and investments	$ -	$ 128,489	$ 11,514	$ 2,206,535	$ 2,346,538
Assessments receivable	-	-		99,409	99,409
Revenue bond surcharges receivable	-	-	2,169,451	-	2,169,451
Subscription Cons. programs receivables: WMRP	6,309	-	-	-	6,309
Water Conservation Receivable	68,798	-	-	-	68,798
Other receivables	125	-	-		125
Prepaid assets	44	-	-	62,807	62,851
Total Current Assets	75,276	128,489	2,180,965	2,368,751	4,753,481
Noncurrent Assets:					
Property and equipment - net	-	-	-	4,094	4,094
Cash with fiscal agent	-	-	29,224,364	-	29,224,364
Prepaid future capital facility obligations	-	-	292,917,383	-	292,917,383
Deposit	-	-	-	14,067	14,067
Total Noncurrent Assets	-	-	322,141,747	18,161	322,159,908
Total Assets	$ 75,276	$ 128,489	$ 324,322,712	$ 2,386,912	$ 326,913,389
Deferred Outflows Of Resources					
OPEB adjustments	$ -	$ -	$ -	$ 112,158	$ 112,158
Pension contributions and adjustments	-	-	-	311,604	311,604
Pension contributions and adjustments	$ -	$ -	$ -	$ 423,762	$ 423,762
Liabilities					
Current Liabilities:					
Accounts payable	$ 22,923	$ -	$ -	$ 165,135	$ 188,058
Accrued expenses	-	-	-	33,185	33,185
Accrued interest	-	-	3,036,950	-	3,036,950
Unearned revenue	3,562	-	-	-	3,562
Current portion of long-term liabilities	-	-	14,406,060	64,640	14,470,700
Total Current Liabilities	26,485	-	17,443,010	262,960	17,732,455
Noncurrent Liabilities:					
Long-term liabilities - net of current portion	-	-	291,689,840	1,432,433	293,122,273
Total Liabilities	$ 26,485	$ -	$ 309,132,850	$ 1,695,393	$ 310,854,728
Deferred Inflows Of Resources					
OPEB adjustments	$ -	$ -	$ -	$ 47,901	$ 47,901
Pension contributions and adjustments	-	-	-	22,735	22,735
Pension contributions and adjustments	$ -	$ -	$ -	$ 70,636	$ 70,636
Net Position					
Net Investment in Capital Assets	$ -	$ -	$ -	$ 4,094	$ 4,094
Restricted for Debt Service	-	-	15,189,862	-	15,189,862
Unrestricted	48,791	128,489	-	1,040,551	1,217,831
Total Net Position	$ 48,791	$ 128,489	$ 15,189,862	$ 1,044,645	$ 16,411,787

BAY AREA WATER SUPPLY & CONSERVATION AGENCY

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Subscription Fund	Home Water Use Reports Fund	Revenue Bond Fund	Operating Fund	Total
Operating Revenue:					
Assessments	$ -	$ -	$ -	$ 3,579,400	$ 3,579,400
Revenue bond surcharges	-	-	24,709,914		24,709,914
Subscription Conservation programs	414,698	288,081	-	-	702,779
Total operating revenue	414,698	288,081	24,709,914	3,579,400	28,992,093
Operating Expenses:					
Legal services	-	-	-	919,162	919,162
Engineering services	-	-	-	243,119	243,119
Financial services	-	-	-	63,924	63,924
Strategic communications	-	-	-	197,911	197,911
Water conservation programs	442,151	258,739	-	34,861	735,751
Water resources planning	-	-	-	455,997	455,997
Automobile	-	-	-	7,800	7,800
Depreciation	-	-	-	1,248	1,248
Director fees	-	-	-	16,890	16,890
Filing fees	-	-	-	2,078	2,078
Insurance	-	-	-	21,108	21,108
Meetings	-	-	-	20,283	20,283
Dues and subscriptions	-	-	-	33,869	33,869
Sponsorships	-	-	-	5,600	5,600
Miscellaneous	-	-	-	630	630
Professional services	-	-	-	22,021	22,021
Office	1,056	-		213,137	214,193
Payroll tax expense	-	-	-	25,723	25,723
Salaries	-	-	-	1,130,533	1,130,533
Employee benefits	-	-	-	573,570	573,570
Employee leave	-	-	-	9,845	9,845
Recruitment	-	-	-	872	872
Training	-	-	-	7,031	7,031
Travel and entertainment	-	-	-	16,148	16,148
Capital facility surcharge amortization	-	-	13,128,127	-	13,128,127
Total operating expenses	443,207	258,739	13,128,127	4,023,360	17,853,433
Operating Income	(28,509)	29,342	11,581,787	(443,960)	11,138,660
Non-Operating Revenues (Expenses):					
Interfund transfers in	67,341	-	-	1,344	68,685
Interfund transfers out	(1,338)	(43,256)	-	(24,091)	(68,685)
Interest expense	-	-	(12,201,490)	-	(12,201,490)
Interest income	-	-	2,721,212	55,659	2,776,871
Total non-operating revenues	66,003	(43,256)	(9,480,278)	32,912	(9,424,619)
Change In Net Position	37,494	(13,914)	2,101,509	(411,048)	1,714,041
Net Position - Beginning	11,297	142,403	13,088,353	1,455,693	14,697,746
Net Position - Ending	$ 48,791	$ 128,489	$ 15,189,862	$ 1,044,645	$ 16,411,787

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OTHER INDEPENDENT AUDITOR'S REPORT

CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Directors
Bay Area Water Supply & Conservation Agency

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Bay Area Water Supply & Conservation Agency (the "Agency") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 13, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency'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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

C & A LLP

November 13, 2019
San Jose, California

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