



# Santa Clara Valley Water District

**File No.:** 21-0069

**Agenda Date:** 1/26/2021

**Item No.:** \*9.1.

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## SUPPLEMENTAL BOARD AGENDA MEMORANDUM

### **SUBJECT:**

Valley Water Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020, \*and other Independent Auditor's Reports.

### **REASON FOR SUPPLEMENTAL MEMORANDUM:**

This report conveys additional information received after the initial board agenda memo was released, consistent with Executive Limitations Policy EL-7-10-5.

### **RECOMMENDATION:**

Accept the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020, \*and other Independent Auditor's Reports.

### **SUMMARY:**

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020 was audited by Valley Water's external auditor, Maze and Associates. During the audit, no material financial findings or internal control weaknesses were reported. The auditor has issued an unmodified ("clean") opinion dated January 13, 2021 stating that the District's financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP), as established by the Governmental Accounting Standards Board (GASB). The auditor prepares additional assurance letters and reports, in accordance with attestation standards established by the American Institute of Certified Public Accountants. The Memorandum of Internal Controls and Required Communications are attached (See Attachments 2 through 5).

The CAFR complies with the following requirements:

1. Board Policy BL-5.2 which requires the monitoring and reporting of financial conditions and activities to be performed annually by an external method.
2. State Law (Government Code Section 26909) which requires an annual examination and audit of the District's financial records.

Each year since 1997, the District has been awarded the prestigious Certificate of Achievement for Excellence in Reporting by the Government Finance Officers Association of the United States and

Canada (GFOA).

The Board Audit Committee discussed the CAFR at their meeting on January 13, 2021 and recommends that water inventory be recognized as an asset on the financial statements included in the Fiscal Year (FY) 20 CAFR.

Valley Water has not recognized water inventory as an asset in the past, and there is no legal or accounting rules board requirement to do so. A review of California Water Enterprise Special Districts shows that some agencies carry water inventory as an asset, and some do not.

Agencies that do include:

- Metropolitan Water District
- Easter Municipal water District
- Irvine Ranch Water District
- San Diego County Water Authority
- Santa Margarita Water District

Agencies that do not include:

- East Bay Municipal Utility District
- Contra Costa Water District
- Alameda County Water District
- Orange County Water District
- Marin Municipal Water District

As of June 30, 2020, Valley Water had 344,662 acre-feet (out of a 350,000 acre-feet allocation) in Semitropic groundwater reserves. Utilizing a three-year average rate of \$331 acre-foot cost, the current valuation is approximately \$114 million. In addition, there was 61,462 acre-feet in local reservoir storage as of June 30, 2020. The vast majority of the water stored in local reservoirs comes from local runoff, as opposed to purchased imported water. As a proxy, applying the same per acre-foot cost results in a current valuation of \$20 million.

Groundwater in Santa Clara County is not owned by Valley Water, and therefore would not be inventoried, and other types of water inventory, such as water at treatment plants are relatively small, and therefore would be immaterial.

Per discussion with Valley Water's Bond Counsel and Financial Advisor, increasing assets on the balance sheet is likely to have minimal impact on Valley Water's credit ratings since Valley Water

debt is secured by current revenues, not assets on the balance sheet which may be more typical for corporations. Instead, Valley Water's financial strengths for credit rating purposes are heavily dependent upon its management experience, Board willingness to raise rates to generate current revenues for current expense, debt service coverage ratio (two times net revenues or better), strength of local economy, and cash reserve balances (days cash on hand to cover operating expense).

For transparency purposes, the Board Audit Committee recommends recognizing water inventory as an asset. As such, the attached FY 20 CAFR, which has been submitted to the Board for acceptance, includes water inventory as an asset.

**FINANCIAL IMPACT:**

Auditing services costs are included in the FY 2020-21 budget.

**CEQA:**

The recommended action does not constitute a project under CEQA because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

**ATTACHMENTS:**

- \*Attachment 1: FY 2019-20 CAFR
- \*Attachment 2: Memorandum of Internal Controls
- \*Attachment 3: Audit Report, Investment Policy Compliance
- \*Attachment 4: Audit Report, Article XIII-B Appropriations Procedure
- \*Attachment 5: Audit Report, Travel and Subsistence Policy Compliance

**UNCLASSIFIED MANAGER:**

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