



DUBLIN SAN RAMON SERVICES DISTRICT/ EAST BAY MUNICIPAL UTILITY DISTRICT RECYCLED WATER AUTHORITY

JUNE 30, 2020 AND 2019

BASIC FINANCIAL STATEMENTS

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**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
BASIC FINANCIAL STATEMENTS
For The Years Ended June 30, 2020 and 2019**

Table of Contents

	Page
<i>Independent Auditors' Report</i>	1
<i>Management's Discussion and Analysis</i>	4
<i>Basic Financial Statements</i>	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Basic Financial Statements	13
<i>Independent Auditors' Report on Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i>	23

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Dublin San Ramon Services District/
East Bay Municipal Utility District Recycled Water Authority
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Dublin San Ramon Services District/ East Bay Municipal Utility District Recycled Water Authority (Authority) as of and for the year ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 District. 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 entity'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 entity'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.



To the Board of Directors
Dublin San Ramon Services District/
East Bay Municipal Utility District Recycled Water Authority
Oakland, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority, as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2020 on our consideration of the Authority'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 Authority'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 Authority's internal control over financial reporting and compliance.

Lance, Soll & Lughard, LLP

Sacramento, California
September 16, 2020

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**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Management's Discussion and Analysis

June 30, 2020 and 2019

This section presents management's analysis of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the Authority) financial condition and activities as of and for the years ended June 30, 2020 and 2019. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the Agency's basic financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance.

This information should be read in conjunction with the audited financial statements that follow this section. The information in the MD&A is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Request for Information

Organization and Business

The Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the Authority) is a public entity established pursuant to California Government Code Section 6500 et seq. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated June 28, 1995, between Dublin San Ramon Services District (DSRSD) and East Bay Municipal Utility District (EBMUD). The Authority was established to supply recycled water to DSRSD and EBMUD through the construction and operation of a water recycling facility with a planned capacity of a minimum of 5.2 million gallons per day. The water recycling facility started operation on February 1, 2006.

For additional information, please see the notes to the basic financial statements.

Overview of the Financial Statements

The basic financial statements include a *statement of net position*, a *statement of revenues, expenses, and changes in net position*, a *statement of cash flows*, and *notes to financial statements*. The report also contains other required supplementary information in addition to the basic financial statements.

The Authority's basic financial statements include:

The *statement of net position* presents information on the Authority's assets and liabilities, with the difference between the two reported as net position. It provides information about the nature and amount of resources and obligations at year-end.

The *statement of revenues, expenses, and changes in net position* presents the results of the Authority's operations over the course of the fiscal year and information as to how the *net position* changed during the year.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Management's Discussion and Analysis

June 30, 2020 and 2019

The *statement of cash flows* presents changes in cash and cash equivalents resulting from operational, capital and related financing, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt.

The *notes to basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 13 to 21 of this report.

Financial Analysis:

Table 1 summarizes net assets at June 30, 2020 and 2019, and Table 2 summarizes revenues, expenses and changes in net position for the years ended June 30, 2020 and 2019. Both tables also include variances from the prior year.

Table 1
Summary of Net Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Assets:			
Current assets	\$ 4,027,179	\$ 3,589,034	\$ 438,145
Capital assets	<u>75,664,544</u>	<u>76,159,083</u>	<u>(494,539)</u>
Total assets	<u>79,691,723</u>	<u>79,748,117</u>	<u>(56,394)</u>
Liabilities:			
Current liabilities	1,908,282	2,454,957	(546,675)
Long-term liabilities	<u>6,763,656</u>	<u>8,204,068</u>	<u>(1,440,412)</u>
Total liabilities	<u>8,671,938</u>	<u>10,659,025</u>	<u>(1,987,087)</u>
Net position:			
Net investment in capital assets	67,460,476	66,549,735	910,741
Unrestricted	<u>3,559,309</u>	<u>2,539,357</u>	<u>1,019,952</u>
Total net position	<u>\$ 71,019,785</u>	<u>\$ 69,089,092</u>	<u>\$ 1,930,693</u>

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Management's Discussion and Analysis

June 30, 2020 and 2019

Table 2
Summary of Revenues, Expenses and Changes in Net Position
Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Operating revenue:	\$ 6,800,703	\$ 7,273,778	\$ (473,075)
Operating expenses:			
Professional services	(7,400)	(6,304)	(1,096)
General and administrative	(468,959)	(420,632)	(48,327)
Operation and maintenance	(2,301,838)	(2,898,880)	597,042
Depreciation	(1,866,408)	(1,859,504)	(6,904)
Total operating expenses	<u>(4,644,605)</u>	<u>(5,185,320)</u>	<u>540,715</u>
Nonoperating income (expenses):			
Investment and other income (expense)	14,829	-	14,829
Interest on state loan	(240,234)	(274,509)	34,275
Total other income (expenses)	<u>(225,405)</u>	<u>(274,509)</u>	<u>49,104</u>
Capital Contribution	-	159,698	159,698
Change in net position	1,930,693	1,973,647	(42,954)
Total net position - beginning	69,089,092	67,115,445	1,973,647
Total net position - ending	<u>\$ 71,019,785</u>	<u>\$ 69,089,092</u>	<u>\$ 1,930,693</u>

- Current assets of the Authority increased by \$0.4 million due to an increase in cash and accounts receivable from prior year.
- The net position of the Authority increased by \$1.7 million from the prior year due to a \$1.7 million decrease in the current and long-term liabilities.
- Capital assets as of June 30, 2020 decreased by \$0.5 million due to a higher depreciation amount over capital additions.
- Total liabilities as of June 30, 2020 decreased by \$1.7 million from the prior year. The principal reason for decrease was the \$1.4 million decrease in the outstanding loan balance.
- The Authority borrowed a 20-year loan in the amount of \$24.7 million with a 2.5% fixed interest rate. After repayment of the thirteenth installment of \$1.4 million for fiscal year 2020, as of June 30, 2020, \$6.8 million was the long term liability outstanding.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Management's Discussion and Analysis

June 30, 2020 and 2019

Request for Information

This financial report is designed to provide readers with a general overview of the Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority's finances and demonstrate the Authority's accountability for the monies it manages. If you have any questions about this report or need additional information, please contact: DERWA Authority Treasurer, MS #402, P.O. Box 24055, Oakland, CA 94623-1055.

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**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2020 AND JUNE 30, 2019**

ASSETS	2020	2019
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 1,109,674	\$ 986,830
Receivables:		
East Bay Municipal Utility District	1,102,495	1,080,278
Dublin San Ramon Services District	1,680,860	1,375,091
City of Pleasanton	130,638	146,835
SWRCB Construction Grant	-	-
Interest Receivables	3,512	-
Total Current Assets	<u>4,027,179</u>	<u>3,589,034</u>
Capital Assets (Note 3):		
Structures, buildings, and equipment	82,912,392	82,893,123
Less accumulated depreciation	<u>(26,058,703)</u>	<u>(24,192,295)</u>
Subtotal	<u>56,853,689</u>	<u>58,700,828</u>
Land and rights-of-way	1,890,978	1,890,978
Construction in progress	<u>16,919,877</u>	<u>15,567,277</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>75,664,544</u>	<u>76,159,083</u>
Total Assets	<u>79,691,723</u>	<u>79,748,117</u>
LIABILITIES		
Current Liabilities:		
Current portion of State loan payable (Note 5)	1,440,412	1,405,280
Accounts payable	20,734	237,716
Payable to members:		
East Bay Municipal Utility District	4,193	45,102
Dublin San Ramon Services District	<u>442,943</u>	<u>766,859</u>
Total Current Liabilities	<u>1,908,282</u>	<u>2,454,957</u>
Long-term Liabilities:		
State loan payable (Note 5)	<u>6,763,656</u>	<u>8,204,068</u>
Total Noncurrent Liabilities	<u>6,763,656</u>	<u>8,204,068</u>
Total Liabilities	<u>8,671,938</u>	<u>10,659,025</u>
NET POSITION (Note 1)		
Net Investment in capital assets	67,460,476	66,549,735
Unrestricted	<u>3,559,309</u>	<u>2,539,357</u>
Total Net Position	<u>\$ 71,019,785</u>	<u>\$ 69,089,092</u>

See accompanying notes to financial statements.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2020 AND JUNE 30, 2019**

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Contributions from members	\$ 6,319,539	\$ 6,926,037
Contributions from others	<u>481,164</u>	<u>347,741</u>
Total Contributions	6,800,703	7,273,778
Operating (Expenses):		
Professional services	(7,400)	(6,304)
General and administrative	(468,959)	(420,632)
Operation and maintenance	(2,301,838)	(2,898,880)
Depreciation (Note 3)	<u>(1,866,408)</u>	<u>(1,859,504)</u>
Total Operating (Expenses)	<u>(4,644,605)</u>	<u>(5,185,320)</u>
Net Operating Income (Loss)	<u>2,156,098</u>	<u>2,088,458</u>
Nonoperating Revenue (Expense):		
Interest and other income	14,829	-
Interest on state loan	<u>(240,234)</u>	<u>(274,509)</u>
Total Nonoperating Revenue (Expenses)	<u>(225,405)</u>	<u>(274,509)</u>
Capital Contribution	-	159,698
Changes in Net Position	1,930,693	1,973,647
Total Net Position - Beginning	<u>69,089,092</u>	<u>67,115,445</u>
Total Net Position - Ending	<u><u>\$ 71,019,785</u></u>	<u><u>\$ 69,089,092</u></u>

See accompanying notes to financial statements.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received for sales of water	\$ 6,488,914	\$ 7,484,816
Cash paid for supplies and services	<u>(3,360,004)</u>	<u>(3,938,639)</u>
Net cash provided by operating activities	<u>3,128,910</u>	<u>3,546,177</u>
Cash flows from capital and related financing activities:		
Cash received from construction grant	-	2,500,000
Cash paid for interest	(240,234)	(274,511)
Cash paid on State loan	(1,405,280)	(1,371,005)
Cash paid for construction of capital assets	<u>(1,371,869)</u>	<u>(1,698,874)</u>
Net cash (used in) provided by capital and related financing activities	<u>(3,017,383)</u>	<u>(844,390)</u>
Cash flows provided by investing activities:		
Interest and other income received	<u>11,317</u>	<u>-</u>
Net change in cash and cash equivalents	122,844	2,701,787
Cash and investments at beginning of period	<u>986,830</u>	<u>(1,714,957)</u>
Cash and investments at end of period	<u><u>\$ 1,109,674</u></u>	<u><u>\$ 986,830</u></u>
Reconciliation of operating income/(loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 2,156,098	\$ 2,088,458
Adjustments to reconcile operating income/(loss) to net cash provided by operating activities:		
Depreciation	1,866,408	1,859,504
Changes in operating assets and liabilities:		
Accounts receivable	(311,789)	211,038
Accounts payable	<u>(581,807)</u>	<u>(612,823)</u>
Net cash provided by operating activities	<u><u>\$ 3,128,910</u></u>	<u><u>\$ 3,546,177</u></u>

See accompanying notes to financial statements.

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**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 1 –NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. *Description of Reporting Entity*

The Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (the Authority) is a public entity established pursuant to California Government Code Section 6500 et seq. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated June 28, 1995, between Dublin San Ramon Services District (DSRSD) and East Bay Municipal Utility District (EBMUD). The Authority was established to supply recycled water to DSRSD and EBMUD through the construction and operation of a water recycling facility with a planned capacity of a minimum of 5.2 million gallons per day. The water recycling facility is fully operational.

An additional member, or members, may be added to the Authority upon request evidenced by submission of a certified copy of a resolution adopted by the governing body of the public agency requesting membership in the Authority. Such request must be approved by the governing bodies of all the existing members. The Board may require a party seeking to become a member to meet any terms and conditions the Board deems appropriate.

The facilities became operational on February 1, 2006. Operation and maintenance expenses are allocated based on each member's actual usage. General and administrative expenses were allocated equally to DSRSD and EBMUD during the first year of operation ending on March 31, 2007; after the first operation year, the costs are allocated based on the member's actual water usage. Capital costs', including debt service, is allocated based on each member's proportional value of capital assets assigned to each member agency.

B. *Basis of Accounting*

The accompanying financial statements report the financial position of the Authority in accordance with accounting standards generally accepted in the United States of America. As the Authority is a governmental entity, the preparation of its financial statements is governed by the pronouncements of the Governmental Accounting Standards Board (GASB).

The Authority, as a proprietary enterprise, is accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 1 –NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Statement of Net Position – The statement of net position is designed to display the financial position of the Authority. The Authority’s fund equity is reported as net position, which is the excess of all of the Authority’s assets over all its liabilities. Net Position is divided into three captions under GASB Statement 34. These captions apply only to Net Position and are described below:

Net investment in capital assets describes the Authority’s 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.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and fees charged for the provision of future water resources.

Unrestricted describes the portion of Net Position which is not restricted to use.

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. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

C. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. *Capital Assets*

The additions to capital assets are capitalized at historical cost. Cost includes material, direct labor and fringe benefits, transportation, and such indirect items as engineering, supervision, and interest on borrowed funds during construction, net of interest earned on unspent construction proceeds. Repairs, maintenance, and minor purchases of equipment are charged to expenses as incurred.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 1 –NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

Depreciation of all capital assets in service, excluding land, is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the capital assets.

Capital assets are depreciated using the straight line method of depreciation, 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 assets is fully depreciated. The Authority has assigned the useful lives listed below to capital assets:

Utility plant:	Years
Water Treatment	20-75
Pumping Plants	25-75
Reservoirs	25-100
Pipeline	25-75

E. Preoperating Costs

In accordance with accounting principles generally accepted in the United States of America, preoperating costs which have no discernible future economic benefit are expensed as incurred.

F. Cash and Cash Equivalents

The Authority considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

G. Fair Value Measurements

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 between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOTE 2 – BANK DEPOSIT

A. Composition

The Authority's cash and cash equivalents at June 30 consisted of the following deposits and investments held by EBMUD on the Authority's behalf:

	<u>2020</u>	<u>2019</u>
Demand deposits with banks	\$ 109,674	\$ 986,830
Local Agency Investment Fund	1,000,000	-
Total Cash and Cash Equivalents	<u>\$ 1,109,674</u>	<u>\$ 986,830</u>

B. Collateralization of Cash and Cash Equivalents

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit or first trust deed mortgage notes with a value of 150% of the Authority's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the Authority's name and places the Authority ahead of general creditors of the institution pledging the collateral. The Authority has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 2 – BANK DEPOSIT (Continued)

C. *Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2020.

D. *Fair Value Hierarchy*

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The California Local Agency Investment Fund is exempt from classification for fair value hierarchy.

E. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by purchasing a combination of short-term and long-term investments and holding investments to maturity. The Authority's only investment is in the California Local Agency Investment Fund which can be withdrawn at any time usually within a day.

F. *Local Agency Investment Fund (LAIF)*

The Authority is a participant in the Local Agency Investment Fund (LAIF), which is regulated by California Government Code §16429 under the oversight of the Treasurer of the State of California. The value of the pool shares in LAIF is determined on an amortized cost basis, which is different from the fair value of its position in the pool. The Authority's investments with LAIF at June 30, 2020 and 2019 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

- Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 2 – BANK DEPOSIT (Continued)

As of June 30, 2020 and 2019, the Authority had investments of \$1,000,000 and \$ 0, respectively, invested in LAIF, which had invested 3.37% and 1.77% of the pooled investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.004912795 and 1.001711790 as of June 30, 2020 and 2019, respectively was used to calculate the fair value of the investments in LAIF.

NOTE 3 – CAPITAL ASSETS

A. Additions and Retirements

Capital assets activity for the year ended June 30, 2020, was as follows:

	Balance at June 30, 2019	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 2020
Capital assets not being depreciated:				
Land and rights-of-way	\$ 1,890,978	\$ -	\$ -	\$ 1,890,978
Construction in progress	15,567,277	1,371,869	(19,269)	16,919,877
Total capital assets not being depreciated	17,458,255	1,371,869	(19,269)	18,810,855
Capital assets, being depreciated:				
Water treatment	26,209,496	19,269	-	26,228,765
Pumping plants	13,792,192	-	-	13,792,192
Reservoirs	14,439,008	-	-	14,439,008
Pipelines	28,452,427	-	-	28,452,427
Total capital assets being depreciated	82,893,123	19,269	-	82,912,392
Less accumulated depreciation for:				
Water treatment	(8,721,697)	(662,697)	-	(9,384,394)
Pumping plants	(4,158,094)	(345,067)	-	(4,503,161)
Reservoirs	(3,840,693)	(289,045)	-	(4,129,738)
Pipelines	(7,471,811)	(569,599)	-	(8,041,410)
Total accumulated depreciation	(24,192,295)	(1,866,408)	-	(26,058,703)
Net capital assets being depreciated	58,700,828	(1,847,139)	-	56,853,689
Capital assets, net	\$ 76,159,083	\$ (475,270)	\$ (19,269)	\$ 75,664,544

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 4 - COMMERCIAL PAPER NOTES PAYABLE

The Authority's Board of Directors authorized a short-term commercial paper borrowing program of up to \$50,000,000 on December 15, 2003. The proceeds from the issuance of commercial paper are used to finance the acquisition and construction of facilities for the treatment, transmission, distribution and storage of recycled water. The Authority may issue commercial paper notes at the prevailing interest rate for periods not more than 270 days from the date of issuance. The commercial paper notes are collateralized solely by the revenues of the Authority, after payment of specific operating and maintenance expenses. To provide liquidity for the program, the Authority would maintain a liquidity support agreement (line of credit) with a commercial bank. The Authority does not currently have a liquidity support agreement with a commercial bank and would have to secure an agreement before issuing new commercial paper. As of June 30, 2020, there were no commercial paper notes outstanding under this program.

NOTE 5 – STATE WATER RESOURCES CONTROL BOARD LOAN

A. *Composition and Change*

The Authority's Board of Directors authorized a long-term borrowing program from the State Water Resource Control Board of up to \$24,764,850 on July 25, 2005. The Authority drew down \$22,993,368 as of the fiscal year ended June 30, 2006, the proceeds from which were used to finance the acquisition and construction of facilities for the treatment, transmission, distribution and storage of recycled water. As of June 30, 2008, the Authority drew down an additional amount of \$1,685,283. The loan has a 20-year term at a 2.5% fixed interest rate. The repayment of the loans and interest are made in annual installments commencing on July 1, 2007. The loan is collateralized solely by the revenues of the Authority, after payment of specific operating and maintenance expenses.

The following is the activity in the State Loan Program during the fiscal year ended June 30, 2020:

	Balance June 30, 2019	Retirements	Balance June 30, 2020
2006 State Water Resource Loan			
2.5%, due 07/25/2025	\$ 9,609,348	\$ 1,405,280	\$ 8,204,068
Less amount due within one year	1,405,280	-	1,440,412
Noncurrent portion	<u>\$ 8,204,068</u>	<u>\$ 1,405,280</u>	<u>\$ 6,763,656</u>

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 5 – STATE WATER RESOURCES CONTROL BOARD LOAN (Continued)

B. Debt Service Requirements

Annual debt service requirements are shown below for the loan:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,440,412	\$ 205,102	\$ 1,645,514
2022	1,476,423	169,091	1,645,514
2023	1,513,333	132,181	1,645,514
2024	1,551,167	94,347	1,645,514
2025-2026	<u>2,222,733</u>	<u>71,389</u>	<u>2,294,122</u>
Totals	<u>\$ 8,204,068</u>	<u>\$ 672,110</u>	<u>\$ 8,876,178</u>

NOTE 6 – RELATED PARTY TRANSACTIONS

DSRSD is responsible for the operation of the facility. DSRSD and EBMUD both provide professional services that are capitalized as well as administrative services. In addition, as the Authority does not have any employees, EBMUD provides certain treasury management and accounting services including conducting all cash transactions and providing for the annual audit. The two members received the following total reimbursements for their services for the years ended June 30:

	<u>2020</u>	<u>2019</u>
DSRSD	\$ 3,797,135	\$ 5,192,587
EBMUD	<u>157,826</u>	<u>580,484</u>
Totals	<u>\$ 3,954,961</u>	<u>\$ 5,773,071</u>

**DUBLIN SAN RAMON SERVICES DISTRICT/
EAST BAY MUNICIPAL UTILITY DISTRICT
RECYCLED WATER AUTHORITY**

Notes to Financial Statements

June 30, 2020 and 2019

NOTE 7 – RISK MANAGEMENT

The Authority's liability and property risks are insured by commercial insurance carriers.

Selected insurance coverages include:

<u>Coverage</u>	<u>Policy limit</u>
Bodily injury	\$ 10,000,000
Property damage	10,000,000
Personal injury	10,000,000
Non-owned and hired automobile liability	10,000,000
Public officials errors and omissions	10,000,000
Fire damage liability	1,000,000
Employment practices liability	5,000,000

Any liability the Authority may have for uninsured claims is limited to general liability claims. However, the Authority has experienced no losses from such claims during the preceding three years and it therefore believes there is no liability for claims incurred but not reported.

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INDEPENDENT AUDITORS' 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
Dublin San Ramon Services District/
East Bay Municipal Utility District Recycled Water Authority
Oakland, California

We have audited, in accordance with the 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 Dublin San Ramon Services District/East Bay Municipal Utility District Recycled Water Authority (Authority), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify the following deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies: 2020-001.



To the Board of Directors
Dublin San Ramon Services District/
East Bay Municipal Utility District Recycle Water Authority
Oakland, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Authority's Response to Finding

The Authority's response to the findings identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Lance, Soll & Lughard, LLP". The signature is written in a cursive, flowing style.

Sacramento, California
September 16, 2020

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Accounts Payable Accrual

Significant Deficiency

Reference Number: 2020-001

Condition:

Through our audit procedures over the Authority's subsequent disbursements, LSL noted that the Authority did not accrue for an invoice of \$240,540 relating to services provided in May 2020 that was paid subsequent to the end of the fiscal year.

Criteria:

All invoices should be recorded in the proper accounting period.

Cause of Condition:

The Authority did not accrue the invoice in question to the proper accounting period.

Effect or Potential Effect of Condition:

A correction \$240,540 was recorded to accrue the missing invoice as of June 30, 2020.

Recommendation:

LSL recommends that the Authority perform a more detailed review of all material invoices received after the close of the fiscal year to ensure that all invoices are captured in the proper period.

Management's Response and Corrective Action:

Staff will annually review invoices paid within 60 days after June 30th and accrue to the correct fiscal year. For all invoices processed in June and July, the approvals will indicate which fiscal year the charges should be associated with.