

**SOUTH COUNTY REGIONAL  
WASTEWATER AUTHORITY**

**BASIC FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2018**

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**SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2018**  
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**SOUTH COUNTY REGIONAL  
WASTEWATER AUTHORITY**

**1500 Southside Drive**

Gilroy, California 95020-7042

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December 18, 2018

To the Honorable Members of the SCRWA Board, and Citizens of Gilroy and Morgan Hill:

The South County Regional Wastewater Authority Joint Powers Agreement requires that the Authority publish a complete set of audited financial statements for each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2018. This financial report is submitted for your information and review. The information contained herein has been provided to allow the reader to gain an understanding of the Authority's financial activities. Management assumes full responsibility for the completeness and reliability of the information contained in this report. The Management Discussion and Analysis (MD&A) is included to assist the reader in its review of the Authority's financial statements. It provides a roadmap for the financial statements and related notes.

To provide a reasonable basis for making these representations, management of the Authority has established a comprehensive framework of internal controls that is designed to both protect the authority's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the Authority's financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the Authority's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatements. Management is committed to maintaining the Authority's internal controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions.

White Nelson Diehl Evans LLP, Certified Public Accountants, have issued an unmodified ("clean") opinion on the authority's financial statements for the year ended June 30, 2018. The independent auditor's report is located at the front of the financial section of this report. MD&A immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

### *Profile of the Authority*

The SCRWA is a joint powers authority of the cities of Gilroy and Morgan Hill. Formed in 1992 the Authority serves both cities treating approximately 2.2 - 2.4 billion gallons of wastewater and producing 700-720 million gallons of recycled wastewater each year for use in landscaping, agricultural, industrial and other applications. The Authority is governed by a five (5) member board of directors consisting of city council members from each member agency; three (3) members from the city of Gilroy and two (2) members from the city of Morgan Hill. The city of Gilroy provides administrative oversight and staffing services to the SCRWA with the Gilroy City Administrator serving as the SCRWA General Manager. General administrative oversight includes, but is not limited to, contract negotiation and administration, financial management, public works services, capital project management, budget preparation, insurance administration, and chemical control services. The SCRWA daily operations are provided under a third party contract with CH2M.

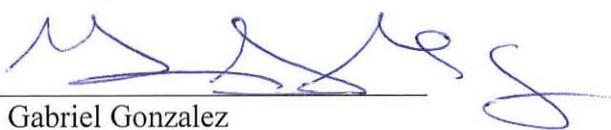
### *Fiscal Year 2018 (FY 18) Financial Results*

The Authority ended FY 18 with an operating loss of \$2.0 million primarily due to depreciation of fixed assets. The Authority had some capital projects that were not completed in FY 18 and the expenditures will be carried forward to FY 19.

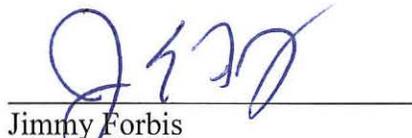
### *Acknowledgements*

The preparation of this report would not have been possible without the skill, diligence, and commitment of the entire staff of the City of Gilroy Finance Department, and specifically Finance Manager Rosemary Guerrero. We wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Credit also is due to the Mayor and the Authority Council for their continuing support for maintaining the highest standards of professionalism in the management of Gilroy's finances and prioritizing the goal of financial sustainability.

Respectfully submitted,



Gabriel Gonzalez  
Authority General Manager



Jimmy Forbis  
Authority Treasurer

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
South County Regional  
Wastewater Authority  
Gilroy, California

We have audited the accompanying financial statements of the South County Regional Wastewater Authority (the Authority) as of and for the year ended June 30, 2018, 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion 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. 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 auditors' 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 auditors consider internal control relevant to the Authority'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 Authority'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 opinion.

### **Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018 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*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis identified as Required Supplementary Information (RSI) in the accompanying 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section, combining statements and additional schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate 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 combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and additional schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*White Nelson Dick Evans LLP*

Irvine, California  
December 18, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis of the financial performance of the South County Regional Wastewater Authority (SCRWA) provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2018 (FY 18). Please read it in conjunction with the financial statements identified in the accompanying table of contents.

### **Using the Accompanying Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

### **Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## **BACKGROUND AND OVERVIEW**

The SCRWA is a joint powers authority of the cities of Gilroy and Morgan Hill. Formed in 1992 the Authority serves both cities treating approximately 2.2 - 2.4 billion gallons of wastewater and producing 700-720 million gallons of recycled wastewater each year for use in landscaping, agricultural, industrial and other applications. The Authority is governed by a five (5) member board of directors consisting of city council members from each member agency; three (3) members from the city of Gilroy and two (2) members from the city of Morgan Hill. The city of Gilroy provides administrative oversight and staffing services to the SCRWA with the Gilroy City Administrator serving as the SCRWA General Manager. General administrative oversight includes, but is not limited to, contract negotiation and administration, financial management, public works services, capital project management, budget preparation, insurance administration, and chemical control services. The SCRWA daily operations are provided under a third party contract with CH2M.

## **ACCOUNTING STANDARDS**

The Authority's financial statements are prepared in accordance with the accounting principles established by the Government Accounting Standards Board (GASB).

## **FINANCIAL HIGHLIGHTS**

The Authority's overall financial position increased by \$2.7 million during Fiscal Year 2018 (FY 18). Total liabilities increased by \$267,000 to \$2.5 million due to a decrease in retentions payable and monies owed to agency members. Total assets increased by \$3.0 million, providing the Authority with total assets of \$108 million.

Operating revenues increased by \$36,793 from FY 17, while operating expenses decreased \$511,188 from the prior fiscal year, which resulted in an operating loss of approximately \$2 million, primarily due to \$3.2 million in depreciation.

## Statements of Net Position

	Statement of Net Position		
	2018	2017	Change
Current and other assets	\$ 9,799	\$ 7,609	\$ 2,191
Capital assets	98,116	97,308	808
Total assets	<u>107,915</u>	<u>104,916</u>	<u>2,999</u>
Current liabilities	2,467	2,197	270
Long-term liabilities outstanding	21	23	(2)
Total liabilities	<u>2,488</u>	<u>2,220</u>	<u>268</u>
Net position:			
Net investment in capital investments	98,116	97,308	808
Unrestricted	<u>7,312</u>	<u>5,389</u>	<u>1,923</u>
Total net position	<u>\$ 105,427</u>	<u>\$ 102,696</u>	<u>\$ 2,731</u>

- In 2018, total assets increased \$3.0 million to \$108 million. Current assets increased \$2.2 million to a total of \$9.8 million; and capital net assets increased \$808,000 to \$98.1 million.
- Capital assets increased \$29.1 million from the prior year and totaled \$135 million due to various infrastructure projects that have now been completed and purchasing over \$6 million of new equipment consisting of clarifiers, generators, and aerators.
- Current liabilities payable increased, \$269,585 over the prior year.
- Non-current liabilities decreased by \$1,836 to a total of \$21,117 over the prior year.

## Statements of Revenues, Expenses, and Changes in Net Position

Statement of Revenues, Expenses and Changes In Net Position			
	2018	2017	Change
<b>Operating Revenues</b>			
Operating Contributions from City of Gilroy	\$ 5,252	\$ 5,190	\$ 62
Operating Contributions from City of Morgan Hill	3,391	3,479	(88)
Other Charges for Services	95	32	63
<b>TOTAL OPERATING REVENUES</b>	<b>8,738</b>	<b>8,701</b>	<b>37</b>
<b>Operating Expenses</b>			
Sewage Treatment	6,710	7,799	(1,090)
Pretreatment	535	543	(7)
Plant Operations	236	235	1
Depreciation	3,248	2,664	585
<b>TOTAL OPERATING EXPENSES</b>	<b>10,729</b>	<b>11,241</b>	<b>(511)</b>
<b>OPERATING LOSS</b>	<b>(1,991)</b>	<b>(2,539)</b>	<b>548</b>
<b>Nonoperating Revenues</b>			
Rental Income	117	88	30
Interest Income	98	61	38
Miscellaneous Income	393	7	386
<b>TOTAL NONOPERATING REVENUES</b>	<b>609</b>	<b>155</b>	<b>453</b>
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(1,383)</b>	<b>(2,384)</b>	<b>1,001</b>
<b>Capital Contributions</b>			
Capital Contribution from City of Gilroy	2,485	4,538	(2,053)
Capital Contribution from City of Morgan Hill	1,628	3,077	(1,449)
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b>4,113</b>	<b>7,615</b>	<b>(3,502)</b>
<b>CHANGE IN NET POSITION</b>	<b>2,731</b>	<b>5,231</b>	<b>(2,501)</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<b>102,696</b>	<b>97,465</b>	<b>5,231</b>
<b>NET POSITION AT THE END OF YEAR</b>	<b>\$ 105,427</b>	<b>\$ 102,696</b>	<b>\$ 2,731</b>

- Total operating revenues for FY 18 increased \$36,793 from FY 17 to \$8.7 million
- Total operating expenses in FY 18 were \$10.7 million, which is a decrease of \$511,188 from FY 17.
- Current year operating activity produced an operating loss of \$2.0 million which is a decrease from the prior years' loss of \$2.5 million. Losses are primarily due to depreciation expenses.
- Total non-operating revenues were \$609,000 in FY 18.
- The Authority's increases in net position was \$2.7 million for FY 18, an increase from \$102.7 million in FY 17 to \$105.4 million in FY 18.

## Statements of Cash Flows

A summary of the Authority's statements of cash flows for FY 18 is presented below.

<b>Condensed Statements of Cash Flows</b>	
	<b>FY 2018</b>
Cash flows from operating activities	\$ 363,029
Cash flows used for capital and related financing activities	704,864
Cash flows used for investing activities	98,368
<b>Net change in cash</b>	<b>1,166,261</b>
Cash and cash equivalents - beginning of year	6,329,812
<b>Cash and cash equivalents - end of year</b>	<b><u>\$ 7,496,073</u></b>

## Capital Assets

At the end of FY 18, the Authority had net investment in capital assets of \$98.1 million, an increase of \$808,000 from FY 17.

## Long-Term Debt

The Authority possesses no long-term debt as debt for SCRWA-related activities are stated as part of each member's financial statements.

## Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority Treasurer, at the City of Gilroy, 7351 Rosanna Street, Gilroy, California 95020.

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

STATEMENT OF NET POSITION

June 30, 2018

ASSETS:

Current assets:

Cash and cash equivalents (Note 2)	\$ 7,496,073
Accounts receivable	444,350
Due from City of Gilroy	1,359,632
Due from City of Morgan Hill	464,267
Due from other governments	<u>35,042</u>

Total current assets	<u>9,799,364</u>
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Noncurrent assets:

Capital assets (Note 3):

Buildings and improvements	67,494,863
Land improvements	10,681,371
Infrastructure	35,521,900
Fleet (vehicles)	1,259,111
Office furniture, fixtures and equipment	<u>19,909,915</u>

Subtotal	134,867,160
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Less: accumulated depreciation	<u>(59,575,506)</u>
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Total capital assets being depreciated, net	75,291,654
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Land	13,396,202
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Construction in progress	<u>9,427,801</u>
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Total capital assets, net	<u>98,115,657</u>
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TOTAL ASSETS	<u>107,915,021</u>
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SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

STATEMENT OF NET POSITION  
(CONTINUED)

June 30, 2018

LIABILITIES:

Current liabilities:

Accounts payable	\$ 1,263,081
Due to City of Gilroy	734,134
Due to City of Morgan Hill	<u>469,364</u>

Total current liabilities 2,466,579

Noncurrent liabilities:

Compensated absences	<u>21,117</u>
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Total noncurrent liabilities 21,117

TOTAL LIABILITIES 2,487,696

NET POSITION:

Net investment in capital assets	98,115,657
Unrestricted	<u>7,311,668</u>

TOTAL NET POSITION \$ 105,427,325

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2018

OPERATING REVENUES:	
Operating contributions from City of Gilroy	\$ 5,252,155
Operating contributions from City of Morgan Hill	3,391,214
Other charges for services	<u>94,683</u>
TOTAL OPERATING REVENUES	<u>8,738,052</u>
OPERATING EXPENSES:	
Sewage treatment	6,709,514
Pretreatment program	535,265
Plant operations	236,403
Depreciation	<u>3,248,301</u>
TOTAL OPERATING EXPENSES	<u>10,729,483</u>
OPERATING LOSS	<u>(1,991,431)</u>
NONOPERATING REVENUES:	
Rental income	117,424
Interest income	98,368
Miscellaneous income	<u>393,019</u>
TOTAL NONOPERATING REVENUES	<u>608,811</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(1,382,620)</u>
CAPITAL CONTRIBUTIONS:	
Capital contribution from City of Gilroy	2,485,195
Capital contribution from City of Morgan Hill	<u>1,628,262</u>
TOTAL CAPITAL CONTRIBUTIONS	<u>4,113,457</u>
CHANGE IN NET POSITION	2,730,837
NET POSITION AT BEGINNING OF YEAR	<u>102,696,488</u>
NET POSITION AT END OF YEAR	<u><u>\$ 105,427,325</u></u>

See accompanying notes to the basic financial statements.

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from system users	\$ 7,532,091
Rental income received	117,424
Miscellaneous income	363,300
Cash payments to suppliers for goods and services	(7,196,759)
Cash payments to employees for services	<u>(453,027)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>363,029</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Cash paid for capital assets	(4,056,262)
Capital contributions	<u>4,761,126</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>704,864</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	<u>98,368</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>98,368</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,166,261
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,329,812</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 7,496,073</u></u>

(Continued)

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

COMBINING STATEMENT OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2018

RECONCILIATION OF OPERATING LOSS TO NET  
CASH PROVIDED BY OPERATING ACTIVITIES:

Operating loss	\$ (1,991,431)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	3,248,301
Rental income	117,424
Miscellaneous income	393,019
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(420,110)
(Increase) decrease in due from City of Gilroy	(717,564)
(Increase) decrease in due from City of Morgan Hill	(76,166)
(Increase) decrease in due from other governments	(21,840)
Increase (decrease) in accounts payable	(166,768)
Increase (decrease) in compensated absences	(1,836)

NET CASH PROVIDED BY  
OPERATING ACTIVITIES

\$ 363,029

CASH AND CASH EQUIVALENTS -  
FINANCIAL STATEMENT CLASSIFICATION:

Current assets:	
Cash and cash equivalents	\$ 7,496,073

TOTAL CASH AND CASH EQUIVALENTS

\$ 7,496,073

# **SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY**

## **Notes to Basic Financial Statements**

**June 30, 2018**

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### ***1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES***

The financial statements of the South County Regional Wastewater Authority (the Authority) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the Authority are described below.

#### **a. Description of Reporting Entity**

The Authority was created on July 1, 1992 by the City of Morgan Hill and the City of Gilroy (Member Agencies). The purpose of the Authority is to plan and implement regional solutions to the wastewater treatment and management problems resulting from the generation of wastewater within the service areas of the Member Agencies. To achieve this purpose, the Authority constructs, maintains and operates facilities for sewage treatment and wastewater reclamation. The City of Gilroy has a 58.1% ownership interest in the Authority. The City of Morgan Hill has a 41.9% ownership interest in the Authority.

The Authority is governed by a Board of Directors which consists of three members from the Gilroy City Council and two members from the Morgan Hill City Council.

The Authority is classified as a joint venture with respect to the two member agencies. The current agreement terminates the joint power agreement entered into in 1979 (the Agreement of 1979). Although the City of Gilroy controls three of the five members of the Board of Directors, the City of Gilroy does not have the ability to impose its will on the Authority beyond its representation on the Board. The Authority's budget and member contribution requirements are approved by the Board of Directors of the Authority. Although the City of Gilroy provides accounting services, engineering services, and administrative support to the Authority, day-to-day operations associated with the Authority have been contracted directly by the Authority to a private provider of services for wastewater management and operations.

#### **b. Basic Financial Statements**

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows and the notes to the basic financial statements.

#### **c. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred. Internal activity has been eliminated in the accompanying financial statements.

# SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

## Notes to Basic Financial Statements

June 30, 2018

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### 1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### c. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

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 sewer operations. The principal operating revenues of the Authority are contributions from Member Agencies. Operating expenses include cost of services, general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Net position of the Authority has been reported as restricted when its use is constrained more narrowly than the reporting unit in which it is reported as a result of state laws governing such use. When both restricted and unrestricted resources are available for use, the Authority uses restricted resources first, then unrestricted resources as they are needed. For capital expenditures, legally available restricted bond proceeds are used first, then other restricted resources, then unrestricted resources are used if needed.

#### d. New Accounting Pronouncements

##### **GASB Current Year Standards**

GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Effective for periods starting after June 15, 2017 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for post-employment benefits other than pension and did not impact the Authority

GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the Authority.

GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, and did not impact the Authority.

GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, and did not impact the Authority.

##### **GASB Pending Accounting Standards**

GASB has issued the following statements, which may impact the Authority's financial reporting requirements in the future:

- GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.

# SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

## Notes to Basic Financial Statements

June 30, 2018

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### 1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. New Accounting Pronouncements (Continued)

**GASB Pending Accounting Standards (Continued)**

- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.

e. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The Authority has no deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no deferred inflows of resources.

f. Operating Contributions

Operating contributions from the members are recognized when the related operating costs are incurred. Members are billed amounts equal to the actual operating expenses incurred less other revenues including contributions from nonmember users.

g. Capital Contributions

In accordance with generally accepted accounting principles for local governmental units, the Authority has recorded the following transactions as capital contributions:

- Capital grants and other contributions from third parties restricted for property, plant, and equipment.
- Cash contributed from members for property, plant, and equipment.

h. Balances Due To/From Member Agencies

Balances shown as due to/from agencies represent each member's over/under payment towards the funding of current year operations and plant construction.

**SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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**1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

i. Capital Assets

Property, plant, and equipment purchases greater than \$10,000 are capitalized at original acquisition cost or estimated acquisition cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. Capital assets acquired under capital leases are recorded at the net present value of the total lease payments. Depreciation is charged to operations, using a straight-line method, based on the estimated useful life of the assets. The estimated useful lives of the assets are as follows:

Furniture and fixtures	10 to 20 years
Vehicles	8 years
Machinery and equipment	5 to 25 years
Treatment plant	40 years
Buildings	40 years
Sewer lines	50 years
Land improvements	50 years

j. Investments

Investments are reported in the accompanying Statement of Net Position at fair value.

Changes in fair value that occur during the fiscal year are recognized as *increase (decrease) in fair value of investments* reported for that fiscal year. *Interest income* includes interest earnings, and any gains or losses realized upon the liquidation or sale of investments.

k. Cash Equivalents

For purposes of the statement of cash flows, cash represents funds that effectively may be withdrawn at any time without prior notice of penalty (such as demand deposits and mutual funds). Cash equivalents are investments that are short-term and highly liquid and that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents have an original maturity date of three months or less from the date of purchase.

l. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

**SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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**2. CASH AND INVESTMENTS**

**Cash and Investments**

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Current Assets:

Cash and cash equivalents	<u>\$ 7,496,073</u>
Total Cash and Investments	<u><u>\$ 7,496,073</u></u>

Cash and investments as of June 30, 2018 consisted of the following:

Equity in City of Gilroy investment pool	\$ 156,306
Investments	<u>7,339,767</u>
Total Cash and Investments	<u><u>\$ 7,496,073</u></u>

**Investments Authorized by the California Government Code and the Authority's Investment Policy**

The table below identifies the investment types that are authorized for the Authority by the California Government Code and the Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds with fiscal agent that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	2 years	None	None
U.S. Government Sponsored				
Agency Securities	Yes	5 years	None	None
Banker's Acceptances	No	180 days	40%	30%
Commercial Paper	No	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	2 years	30%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

\* Based on state law requirements or investment policy requirements, whichever is more restrictive.

N/A - Not Applicable

**SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2018**

**2. CASH AND INVESTMENTS (CONTINUED)**

**Disclosures Relating to 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 changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority’s investments by maturity:

Investment Type	Remaining Maturity (in Months) 12 Months or Less
Equity in City of Gilroy investment pool	\$ 156,306
Local Agency Investment Fund	<u>7,339,767</u>
	<u>\$ 7,496,073</u>

**Disclosures Relating to Credit Risk**

Generally, 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. Presented below is the minimum rating required by (where applicable) the California Government Code, or the Authority’s investment policy, and the actual rating by Standard & Poor’s as of year end for each investment type.

Investment Type	Minimum Legal Rating	Total as of June 30, 2018	Not Rated
Equity in City of Gilroy investment pool	N/A	\$ 156,306	\$ 156,306
Local Agency Investment Fund	N/A	<u>7,339,767</u>	<u>7,339,767</u>
		<u>\$ 7,496,073</u>	<u>\$ 7,496,073</u>

# **SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY**

## **Notes to Basic Financial Statements**

**June 30, 2018**

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### **2. CASH AND INVESTMENTS (CONTINUED)**

#### **Concentration of Credit Risk**

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Authority investments.

#### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

#### **Investment in State Investment Pool**

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

#### **Equity in Cash and Investment Pool of the City of Gilroy**

The Authority does not have a separate bank account; however, the Authority's cash and investments are maintained in an investment pool managed by the City. The Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis. At June 30, 2018, the Authority had a cash balance of \$156,306.

**SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**2. CASH AND INVESTMENTS (CONTINUED)**

**Fair Value Measurements**

The Authority categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices for similar assets in active markets (significant other observable inputs), and Level 3 inputs are significant unobservable inputs.

The Authority's investments in Equity in City of Gilroy investment pool and LAIF are not subject to the fair value measurement hierarchy.

**3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 is as follows:

	Beginning Balance <u>July 1, 2017</u>	Additions	Deletions	Ending Balance <u>June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 13,396,202	\$ -	\$ -	\$ 13,396,202
Construction in progress	<u>34,470,740</u>	<u>3,958,273</u>	<u>(29,001,212)</u>	<u>9,427,801</u>
Total capital assets, not being depreciated	<u>47,866,942</u>	<u>3,958,273</u>	<u>(29,001,212)</u>	<u>22,824,003</u>
Capital assets, being depreciated:				
Buildings and improvements	67,494,863	-	-	67,494,863
Land improvements	10,681,371	-	-	10,681,371
Infrastructure	12,758,116	22,763,784	-	35,521,900
Fleet (vehicles)	1,120,022	161,889	(22,800)	1,259,111
Office furniture and equipment	<u>13,736,386</u>	<u>6,173,529</u>	<u>-</u>	<u>19,909,915</u>
Total capital assets, being depreciated	<u>105,790,758</u>	<u>29,099,202</u>	<u>(22,800)</u>	<u>134,867,160</u>
Less accumulated depreciation for:				
Buildings and improvements	(34,652,323)	(1,672,904)	-	(36,325,227)
Land improvements	(5,146,553)	(190,342)	-	(5,336,895)
Infrastructure	(4,104,087)	(406,831)	-	(4,510,918)
Fleet (vehicles)	(1,021,680)	(32,725)	22,800	(1,031,605)
Office furniture and equipment	<u>(11,425,362)</u>	<u>(945,499)</u>	<u>-</u>	<u>(12,370,861)</u>
Total accumulated depreciation	<u>(56,350,005)</u>	<u>(3,248,301)</u>	<u>22,800</u>	<u>(59,575,506)</u>
Total capital assets being depreciated, net	<u>49,440,753</u>	<u>25,850,901</u>	<u>-</u>	<u>75,291,654</u>
Total capital assets, net	<u>\$ 97,307,695</u>	<u>\$ 29,809,174</u>	<u>\$(29,001,212)</u>	<u>\$ 98,115,657</u>

Depreciation expense was \$3,248,301 for the year ended June 30, 2018.

# **SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY**

## **Notes to Basic Financial Statements**

**June 30, 2018**

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### **4. *INSURANCE***

The Authority is owned by the City of Gilroy and the City of Morgan Hill, but operated by a third party contractor, currently CH2MHill. The contract for services with CH2MHill requires that CH2MHill provide general liability (\$5M per occurrence), auto liability (\$5M per accident), employer's liability (\$5M per accident) professional liability/errors & omissions (\$5M per occurrence), pollution/environmental impairment liability insurance (\$5M per occurrence) and workers compensation coverage (State of CA mandated coverage) for the operation of the facility. The City of Gilroy, through its coverage with the Municipal Pooling Authority, purchases property coverage for the SCRWA facility. Property coverage is through Alliant Property Insurance Program (APIP). Appraisals of the SCRWA facility were completed in March of 2018 to document the property values. The general property insurance coverage amount is \$1B per occurrence up to the insurable value. The flood limit is \$25M. Business interruption coverage is \$100M.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

### **5. *SUBSEQUENT EVENTS***

Events occurring after June 30, 2018 have been evaluated for possible adjustments to the financial statements or disclosure as of December 18, 2018, which is the date these financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

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## SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

## COMBINING STATEMENT OF NET POSITION

June 30, 2018

	Plant Construction	Sewage Treatment Operations	Totals
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	\$ -	\$ 7,496,073	\$ 7,496,073
Accounts receivable	29,719	414,631	444,350
Due from City of Gilroy	180,401	1,179,231	1,359,632
Due from City of Morgan Hill	100,381	363,886	464,267
Due from other governments	-	35,042	35,042
Due from other funds	-	117,034	117,034
	<u>310,501</u>	<u>9,605,897</u>	<u>9,916,398</u>
Total current assets			
Noncurrent assets:			
Capital assets:			
Buildings and improvements	-	67,494,863	67,494,863
Land improvements	-	10,681,371	10,681,371
Infrastructure	-	35,521,900	35,521,900
Fleet (vehicles)	-	1,259,111	1,259,111
Office furniture, fixtures and equipment	-	19,909,915	19,909,915
	<u>-</u>	<u>134,867,160</u>	<u>134,867,160</u>
Subtotal	-	134,867,160	134,867,160
Less: accumulated depreciation	-	(59,575,506)	(59,575,506)
	<u>-</u>	<u>75,291,654</u>	<u>75,291,654</u>
Total capital assets being depreciated, net	-	75,291,654	75,291,654
Land	-	13,396,202	13,396,202
Construction in progress	8,468,274	959,527	9,427,801
	<u>8,468,274</u>	<u>89,647,383</u>	<u>98,115,657</u>
Total capital assets, net	8,468,274	89,647,383	98,115,657
	<u>\$ 8,778,775</u>	<u>\$ 99,253,280</u>	<u>\$ 108,032,055</u>
TOTAL ASSETS	\$ 8,778,775	\$ 99,253,280	\$ 108,032,055

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

COMBINING STATEMENT OF NET POSITION  
(CONTINUED)

June 30, 2018

	<u>Plant Construction</u>	<u>Sewage Treatment Operations</u>	<u>Totals</u>
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	\$ 215,474	\$ 1,047,607	\$ 1,263,081
Due to City of Gilroy	-	734,134	734,134
Due to City of Morgan Hill	-	469,364	469,364
Due to other funds	117,034	-	117,034
	<u>332,508</u>	<u>2,251,105</u>	<u>2,583,613</u>
Total current liabilities			
Noncurrent liabilities:			
Compensated absences	-	21,117	21,117
	<u>-</u>	<u>21,117</u>	<u>21,117</u>
Total noncurrent liabilities			
	<u>-</u>	<u>21,117</u>	<u>21,117</u>
TOTAL LIABILITIES			
	<u>332,508</u>	<u>2,272,222</u>	<u>2,604,730</u>
<b>NET POSITION:</b>			
Net investment in capital assets	8,468,274	89,647,383	98,115,657
Unrestricted	(22,007)	7,333,675	7,311,668
	<u>(22,007)</u>	<u>7,333,675</u>	<u>7,311,668</u>
TOTAL NET POSITION			
	<u>\$ 8,446,267</u>	<u>\$ 96,981,058</u>	<u>\$ 105,427,325</u>

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2018

	Plant Construction	Sewage Treatment Operations	Totals
<b>OPERATING REVENUES:</b>			
Operating contributions from City of Gilroy	\$ -	\$ 5,252,155	\$ 5,252,155
Operating contributions from City of Morgan Hill	-	3,391,214	3,391,214
Other charges for services	-	94,683	94,683
<b>TOTAL OPERATING REVENUES</b>	<b>-</b>	<b>8,738,052</b>	<b>8,738,052</b>
<b>OPERATING EXPENSES:</b>			
Sewage treatment	-	6,709,514	6,709,514
Pretreatment program	-	535,265	535,265
Plant operations	-	236,403	236,403
Depreciation	-	3,248,301	3,248,301
<b>TOTAL OPERATING EXPENSES</b>	<b>-</b>	<b>10,729,483</b>	<b>10,729,483</b>
<b>OPERATING LOSS</b>	<b>-</b>	<b>(1,991,431)</b>	<b>(1,991,431)</b>
<b>NONOPERATING REVENUES:</b>			
Rental income	-	117,424	117,424
Interest income	-	98,368	98,368
Miscellaneous income	183,018	210,001	393,019
<b>TOTAL NONOPERATING REVENUES</b>	<b>183,018</b>	<b>425,793</b>	<b>608,811</b>
<b>INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	<b>183,018</b>	<b>(1,565,638)</b>	<b>(1,382,620)</b>
<b>TRANSFERS AND CAPITAL CONTRIBUTIONS:</b>			
Transfers in	-	4,779,816	4,779,816
Transfers out	(4,779,816)	-	(4,779,816)
Capital contribution from City of Gilroy	481,101	2,004,094	2,485,195
Capital contribution from City of Morgan Hill	346,956	1,281,306	1,628,262
<b>TOTAL CAPITAL CONTRIBUTIONS</b>	<b>(3,951,759)</b>	<b>8,065,216</b>	<b>4,113,457</b>
<b>CHANGE IN NET POSITION</b>	<b>(3,768,741)</b>	<b>6,499,578</b>	<b>2,730,837</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<b>12,215,008</b>	<b>90,481,480</b>	<b>102,696,488</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 8,446,267</b>	<b>\$ 96,981,058</b>	<b>\$ 105,427,325</b>

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

COMBINING STATEMENT OF CASH FLOWS

For the year ended June 30, 2018

	Plant Construction	Sewage Treatment Operations	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from system users	\$ -	\$ 7,532,091	\$ 7,532,091
Rental income received	-	117,424	117,424
Miscellaneous income (expense)	153,299	210,001	363,300
Cash payments to suppliers for goods and services	29,262	(7,226,021)	(7,196,759)
Cash payments to employees for services	-	(453,027)	(453,027)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>182,561</b>	<b>180,468</b>	<b>363,029</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Cash received from/(paid to) other funds	(833,424)	833,424	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(833,424)</b>	<b>833,424</b>	<b>-</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Cash paid for capital assets	(824,863)	(3,231,399)	(4,056,262)
Capital contributions	1,475,726	3,285,400	4,761,126
<b>NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>650,863</b>	<b>54,001</b>	<b>704,864</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received on investments	-	98,368	98,368
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>-</b>	<b>98,368</b>	<b>98,368</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>1,166,261</b>	<b>1,166,261</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>-</b>	<b>6,329,812</b>	<b>6,329,812</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ -</b>	<b>\$ 7,496,073</b>	<b>\$ 7,496,073</b>

(Continued)

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

COMBINING STATEMENT OF CASH FLOWS  
(CONTINUED)

For the year ended June 30, 2018

	Plant Construction	Sewage Treatment Operations	Totals
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating loss	\$ -	\$ (1,991,431)	\$ (1,991,431)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	-	3,248,301	3,248,301
Rental income	-	117,424	117,424
Miscellaneous income (expense)	183,018	210,001	393,019
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(29,719)	(390,391)	(420,110)
(Increase) decrease in due from City of Gilroy	-	(717,564)	(717,564)
(Increase) decrease in due from City of Morgan Hill	-	(76,166)	(76,166)
(Increase) decrease in due from other governments	-	(21,840)	(21,840)
Increase (decrease) in accounts payable	29,262	(196,030)	(166,768)
Increase (decrease) in compensated absences	-	(1,836)	(1,836)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 182,561	\$ 180,468	\$ 363,029
CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION:			
Current assets:			
Cash and cash equivalents	\$ -	\$ 7,496,073	\$ 7,496,073
TOTAL CASH AND CASH EQUIVALENTS	\$ -	\$ 7,496,073	\$ 7,496,073

**ADDITIONAL SCHEDULES**

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

ANALYSIS OF AVAILABLE RESOURCES

For the year ended June 30, 2018

	Plant Construction	Sewage Treatment Operations	Totals
<b>BEGINNING RESOURCES AVAILABLE:</b>			
Operating reserve	\$ (208,219)	\$ 5,710,686	\$ 5,502,467
<b>TOTAL BEGINNING RESOURCES</b>	<b>(208,219)</b>	<b>5,710,686</b>	<b>5,502,467</b>
<b>SOURCE OF FUNDS (WORKING CAPITAL):</b>			
Revenues	182,561	7,859,516	8,042,077
Investment income	-	98,368	98,368
Member capital contributions	1,475,726	3,285,400	4,761,126
<b>TOTAL SOURCES</b>	<b>1,658,287</b>	<b>11,243,284</b>	<b>12,901,571</b>
<b>USE OF FUNDS (WORKING CAPITAL):</b>			
Expenses (excluding depreciation)	-	7,501,182	7,501,182
Capital expenditures incurred	824,863	3,231,399	4,056,262
Transfers	833,424	(833,424)	-
<b>TOTAL USES</b>	<b>1,658,287</b>	<b>9,899,157</b>	<b>11,557,444</b>
<b>ADJUSTMENTS:</b>			
Adjustments for other assets and liabilities	186,212	278,862	465,074
<b>TOTAL ADJUSTMENTS</b>	<b>186,212</b>	<b>278,862</b>	<b>465,074</b>
<b>TOTAL CHANGES IN RESOURCES</b>	<b>186,212</b>	<b>1,622,989</b>	<b>1,809,201</b>
<b>ENDING RESOURCES AVAILABLE</b>	<b>\$ (22,007)</b>	<b>\$ 7,333,675</b>	<b>\$ 7,311,668</b>
<b>RECAP OF ENDING RESOURCES:</b>			
Operating reserve	\$ (22,007)	\$ 7,333,675	\$ 7,311,668
<b>TOTAL ENDING RESOURCES</b>	<b>\$ (22,007)</b>	<b>\$ 7,333,675</b>	<b>\$ 7,311,668</b>

SOUTH COUNTY REGIONAL WASTEWATER AUTHORITY

COMPOSITION OF AVAILABLE RESOURCES

For the year ended June 30, 2018

	Plant Construction	Sewage Treatment Operations	Totals
BEGINNING RESOURCES AVAILABLE:			
Cash	\$ -	\$ 6,329,812	\$ 6,329,812
Receivables	928,451	1,290,934	2,219,385
Payables	<u>(1,136,670)</u>	<u>(1,910,060)</u>	<u>(3,046,730)</u>
 TOTAL BEGINNING RESOURCES	 <u>\$ (208,219)</u>	 <u>\$ 5,710,686</u>	 <u>\$ 5,502,467</u>
ENDING RESOURCES AVAILABLE:			
Cash	\$ -	\$ 7,496,073	\$ 7,496,073
Receivables	310,501	2,109,824	2,420,325
Payables	<u>(332,508)</u>	<u>(2,272,222)</u>	<u>(2,604,730)</u>
 TOTAL ENDING RESOURCES	 <u>\$ (22,007)</u>	 <u>\$ 7,333,675</u>	 <u>\$ 7,311,668</u>