

**GOVERNING BOARD
SAN JOSE - SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**

Charles “Chappie” Jones, Chair (San José) Debi Davis, Boardmember (Santa Clara)
Kathy Watanabe, Vice-Chair (Santa Clara) Sergio Jimenez, Board Member (San José),
Lan Diep, Boardmember (San José)

**QUARTERLY MEETING
February 13, 2020 at 3:30 p.m.**

San José City Hall
200 E. Santa Clara Street, Room 1352
San Jose, CA 95113

AGENDA

- 1. Roll Call**
- 2. Approval of Minutes**
 - A. From June 24, 2019 Meeting
- 3. Election of Chair and Vice-Chair**
- 4. Review and Consideration**
 - A. Audited Financial Statements for the year ended June 30, 2019 by Macias Gini & O’Connell LLP.
 - B. Compliance Letter of the City of San José for the year ended June 30, 2019 by Macias Gini & O’Connell LLP.
 - C. Compliance Letter of the City of Santa Clara for year ended June 30, 2019 by Maze & Associates.
- 5. Other Items**
 - A. Meeting schedule - FY 2019-20
Next quarterly meeting is scheduled for May 14, 2020 at 3:30 pm.
Location: San José City Hall
200 E. Santa Clara Street, Room 1352
San José, CA 95113
- 6. Public Comment/Oral Petitions**
- 7. Adjournment**

*To arrange an accommodation under the Americans with Disabilities Act to participate in this public meeting,
please call 535-7010 (Voice) at least 48 hours before this meeting.*

**GOVERNING BOARD
SAN JOSE - SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**

**Special Rescheduled Quarterly Meeting Minutes
June 24, 2019**

1. Roll Call

Members of the San José-Santa Clara Clean Water Financing Authority Board convened on this date at 3:42 p.m. in Room T-1352 at San José City Hall.

Present:

Board Members: Charles “Chappie” Jones (San José)
Lan Diep (San José)
Kathy Watanabe (Santa Clara)

All Others:

Julia H. Cooper (Director of Finance, San José)
Lisa C. Taitano (Assistant Director of Finance, San José)
Joe Gray (Debt Administrator, San José)
Danielle Kenealey (Chief Deputy City Attorney, San José)
Laura Burke (Fiscal Officer of Environmental Services, San José)
Gary Welling (Director of Water and Sewer Utilities, Santa Clara)
Napp Fukuda (Assistant Director of Environmental Services, San José)
Helen Chapman (Council Policy & Legislative Advisor, San José)
Soumya Panday (Financial Analyst, San José)

Absent:

Debi Davis (Santa Clara)
Sergio Jimenez (San José)

A quorum was present.

2. Approval of Minutes

Documents Filed: February 8, 2018 Meeting Minutes

Action: Upon motion by Board Member Watanabe, along with a recommendation to revise the minutes to correct the reference to Board Member Davis seconded by Board Member Diep and carried unanimously, the February 8, 2018 Meeting Minutes as revised were accepted.

(3-0. Absent: Jimenez, Davis)

3. Election of Chair and Vice-Chair

Board Member Watanabe nominated Board Member Jones as Chair and Board Member Jones nominated Board member Watanabe as Vice-Chair.

Action: Upon motion by Board Member Watanabe, seconded by Board Member Diep and carried unanimously, motion to elect Board member Jones as Chair was accepted. Upon motion by Board Member Jones, seconded by Board Member Diep to elect Watanabe as Vice-Chair carried unanimously, motion to elect Board member Watanabe as Vice-Chair was accepted (3-0. Absent: Jimenez, Davis).

4. Review and Consideration of Audited Financial Statements, Compliance Letters from Auditors

Documents Filed: (A) Audited Financial Statements for June 30, 2018, by Macias Gini & O'Connell LLP; (B) Compliance Letter of the City of San José for the year ended June 30, 2018 by Macias Gini & O'Connell LLP; and (C) Compliance Letter of the City of Santa Clara for year ended June 30, 2018, by Maze & Associates.

Action: Upon motion by Board Member Watanabe, seconded by Board Member Diep and carried unanimously, the Audited Financial Statements, Compliance Letter of the City of San José, and Compliance Letter of the City of Santa Clara were accepted.
(3-0. Absent: Jimenez, Davis)

5. Other Items

Next quarterly meeting tentatively scheduled for August 8, 2019.
Treasurer will cancel the meeting if no business is scheduled.

6. Public Comment

None.

7. Adjournment

The quarterly meeting was adjourned at 3:47 p.m.

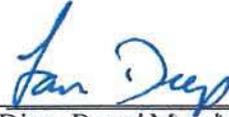
Action: Upon motion by Board Member Watanabe, seconded by Board Member Diep and carried unanimously, meeting was adjourned.
(3-0. Absent: Jimenez, Davis)

SAN JOSE-SANTA CLARA
CLEAN WATER FINANCING AUTHORITY
Quarterly Meeting Minutes of June 24, 2019

Acceptance of June 24, 2019 Minutes:



Charles "Chappie" Jones, Board Member



Lan Diep, Board Member

Sergio Jimenez, Board Member (Absent)



Kathy Watanabe, Board Member

Debi Davis, Board Member (Absent)

**SAN JOSE – SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**
(A Component Unit of the
City of San José, California)

Independent Auditor's Reports,
Management's Discussion and Analysis,
and Basic Financial Statements

For the Year Ended June 30, 2018



Certified
Public
Accountants

**SAN JOSE – SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**
(A Component Unit of the City of San José, California)
For the Year Ended June 30, 2018

Table of Contents

	<i>Page</i>
Independent Auditor’s Report	1
Management’s Discussion and Analysis (Required Supplementary Information - Unaudited)	3
Basic Financial Statements:	
Statement of Net Deficit.....	5
Statement of Revenues, Expenses, and Changes in Net Deficit.....	6
Statement of Cash Flows.....	7
Notes to Basic Financial Statements	8
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13



Certified
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Accountants

Independent Auditor's Report

The Board of Directors
San José – Santa Clara Clean Water Financing Authority
San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San José – Santa Clara Clean Water Financing Authority (the Authority), a component unit of the City of San José (the City), California, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018, and the changes in its financial position and its cash flows 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 3, 2018

**SAN JOSE - SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018

The following discussion and analysis of the San José - Santa Clara Clean Water Financing Authority's (the Authority) financial performance provides an overview of its financial activities for the year ended June 30, 2018. The City of San José's Finance Department prepared this discussion and analysis. Please read it in conjunction with the Authority's basic financial statements, which begin on page 5. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rest solely with management of the Authority. To the best of our actual knowledge and belief, the basic financial statements, as presented, are accurate in all material respects.

Financial Statements

The Authority's financial statements are those of a special-purpose government engaged only in providing debt financing for the acquisition and construction of additions and improvements to the existing wastewater treatment plant and related facilities, known as the San José - Santa Clara Water Pollution Control Plant (the Plant). Under Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, public entities like the Authority that have only business-type activities may present only enterprise fund financial statements as follows: (1) statement of net position (deficit); (2) statement of revenues, expenses, and changes in net position; (3) statement of cash flows; and (4) notes to basic financial statements.

The Authority's basic financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Authority is reported as a single enterprise fund.

The following table indicates the net position at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>
Assets	\$ 5,387,826	\$ 5,495,022	\$ (107,196)
Current liabilities	5,170,403	5,372,912	(202,509)
Noncurrent liabilities	<u>12,895,851</u>	<u>17,985,560</u>	<u>(5,089,709)</u>
Total liabilities	<u>18,066,254</u>	<u>23,358,472</u>	<u>(5,292,218)</u>
Net deficit	<u>\$ (12,678,428)</u>	<u>\$ (17,863,450)</u>	<u>\$ 5,185,022</u>

Statement of Net Deficit

Total liabilities decreased by \$5.3 million for the year ended June 30, 2018. The decrease is primarily the result of the Authority's scheduled bond principal payment of \$5.1 million.

**SAN JOSE - SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018

The Authority's net position at June 30, 2018 was a deficit of \$12.7 million. The Authority has issued debt for the acquisition and construction of additions and improvements to the Plant. The Authority does not have title to the Plant land or any capital improvements to the Plant, and capital assets acquired under the Joint Exercise of Powers Agreement (the CWFA Agreement) are conveyed to the City of San José and the City of Santa Clara (Cities) in accordance with the provisions of the CWFA Agreement. Since assets are conveyed to the Cities while the debt remains on the Authority's books, the Authority has a net deficit at June 30, 2018, which is expected to be eliminated in future years through the receipt of base payments and additional payments from the City of San José.

The following table indicates the changes in net deficit for the years ended June 30, 2018 and 2017:

	2018	2017	Dollar Change
Operating revenues	\$ 5,749,461	\$ 1,095,984	\$ 4,653,477
Operating expenses	(1,750)	(12,149)	10,399
Operating income	5,747,711	1,083,835	4,663,876
Nonoperating revenues (expenses):			
Investment income	25,680	13,665	12,015
Bond interest expense	(588,369)	(810,278)	221,909
Used 2005A Bond Reserve Fund to pay debt service	-	5,213,174	(5,213,174)
Total nonoperating expenses, net	(562,689)	4,416,561	(4,979,250)
Change in net position	5,185,022	5,500,396	(315,374)
Net deficit, beginning of year	(17,863,450)	(23,363,846)	5,500,396
Net deficit, end of year	\$ (12,678,428)	\$ (17,863,450)	\$ 5,185,022

Statement of Revenues, Expenses, and Changes in Net Deficit

The Statement of Revenues, Expenses, and Changes in Net Deficit identified various revenue and expense items, which impact the change in net position. The Authority's operating revenues were comprised of base payments and additional payments to the Authority from Net System Revenues of the sewer system operated by the City of San José for principal and interest on the Authority's outstanding bonds. Operating expenses were comprised of administrative expenses including trustee charges.

Long-Term Debt

Long-term debt of the Authority was \$15.8 million, which was comprised of \$15.6 million of outstanding principal and \$0.2 million of unamortized premium. During the year ended June 30, 2018, the Authority made a scheduled bond principal payment of \$5.1 million on the Series 2009A sewer revenue refunding bonds. Additional information in the Authority's long-term debt can be found in Note 5 to the basic financial statements.

Request for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 200 E. Santa Clara Street, San José, CA 95113.

SAN JOSE - SANTA CLARA
CLEAN WATER FINANCING AUTHORITY
(A Component Unit of the City of San José, California)
Statement of Net Deficit
June 30, 2018

Assets	
Current assets:	
Restricted cash and cash equivalents (Note 4)	\$ 2,204,007
Base payment receivable	<u>3,183,819</u>
Total assets	<u>5,387,826</u>
Liabilities	
Current liabilities:	
Bond interest payable	80,694
Bonds payable - current, net (Note 5)	<u>5,089,709</u>
Total current liabilities	<u>5,170,403</u>
Noncurrent liabilities:	
Advance from the City of San José (Note 6)	2,139,375
Bonds payable - noncurrent, net (Note 5)	<u>10,756,476</u>
Total noncurrent liabilities	<u>12,895,851</u>
Total liabilities	<u>18,066,254</u>
Net deficit	
Unrestricted deficit	<u>\$ (12,678,428)</u>

See accompanying notes to basic financial statements.

SAN JOSE - SANTA CLARA
CLEAN WATER FINANCING AUTHORITY
(A Component Unit of the City of San José, California)
Statement of Revenues, Expenses, and Changes in Net Deficit
For the Year Ended June 30, 2018

Operating revenues:	
Base payments from the City of San José	\$ 5,744,461
Additional payments from the City of San José	<u>5,000</u>
Total operating revenues	<u>5,749,461</u>
Operating expenses:	
Administrative and other costs	<u>1,750</u>
Operating income	<u>5,747,711</u>
Nonoperating revenues (expenses):	
Investment income	25,680
Bond interest expense	<u>(588,369)</u>
Total nonoperating expenses, net	<u>(562,689)</u>
Change in net deficit	<u>5,185,022</u>
Net deficit, beginning of year	<u>(17,863,450)</u>
Net deficit, end of year	<u>\$ (12,678,428)</u>

See accompanying notes to basic financial statements.

SAN JOSE - SANTA CLARA
CLEAN WATER FINANCING AUTHORITY
(A Component Unit of the City of San José, California)
Statement of Cash Flows
For the Year Ended June 30, 2018

Cash flows from operating activities:	
Cash received from the City of San José, principal portion	\$ 5,145,000
Cash received from the City of San José, interest portion	734,470
Cash received for general expenses	5,000
Cash payments for general expenses	<u>(1,750)</u>
Net cash provided by operating activities	<u>5,882,720</u>
Cash flows from noncapital financing activities:	
Cash paid for principal on bonds	(5,145,000)
Cash paid for interest on bonds	<u>(735,587)</u>
Net cash used in noncapital financing activities	<u>(5,880,587)</u>
Cash flows from investing activities:	
Investment earnings received	<u>25,680</u>
Net change in cash and cash equivalents	27,813
Cash and cash equivalents:	
Beginning of year	<u>2,176,194</u>
End of year	<u>\$ 2,204,007</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 5,747,711
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in base payment receivable	135,009
Net cash provided by operating activities	<u>\$ 5,882,720</u>
Noncash noncapital financing and investing activities:	
Amortization of bond premium	\$ 124,709

See accompanying notes to basic financial statements.

**SAN JOSE – SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

NOTE 1 – REPORTING ENTITY

The San José - Santa Clara Clean Water Financing Authority (the Authority), a component unit of the City of San José, California, was created pursuant to the Joint Exercise of Powers Agreement (the CWFA Agreement) on March 1, 1981, as amended, between the City of San José and the City of Santa Clara (the Cities) to operate and finance the acquisition and construction of additions and improvements to the existing wastewater treatment plant and related facilities, known as the San José - Santa Clara Water Pollution Control Plant (the Plant).

The Authority and the Cities entered into an Improvement Agreement on July 1, 1982, as amended, under which Base Payments are made by the City of San José from Net System Revenues of the sewer system operated by San José. Such payments have been adjusted under the amendments to be at least equal to 1.15 times the annual debt service required by Sewer Revenue Bonds issued through the Authority, and are solely secured by a pledge of the sewer system's Net System Revenues.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The fiscal agent, as trustee for the bondholders, is required to maintain separate funds for specified activities. The accompanying financial statements reflect the transactions executed by the fiscal agent and the Authority for financing activities and are presented in accordance with accounting principles generally accepted in the United States (GAAP).

Basis of Accounting

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position (deficit), revenues, and expenses. Enterprise funds are used to account for activities that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges for the activities.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for using the flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operations are included on the statement of net position (deficit). Revenues are recorded when earned, and expenses are recorded when the related liabilities are incurred.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenue of the Authority is Base Payments from the City of San José. Operating expenses for the Authority include administrative and other costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**SAN JOSE – SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City of San José, as the administering agent of the Authority, has established certain funds to account for its sewer collections and plant operations, which are integral to the Authority, including the South Bay Water Recycling Fund, which was established to account for construction activity partially financed through the Authority, and the Clean Water Financing Authority Payment Fund, which is used to collect funds to be transferred to the Authority as Base Payments.

Restricted Cash and Cash Equivalents

Cash and cash equivalents are restricted and held by a fiscal agent. Investments are accounted for in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 72, *Fair Value Measurement and Application*, which requires governmental entities to report certain investments at fair value and recognize the corresponding change in fair value of investments in the year in which the change occurred. The Authority reports its investments at fair value. The fair value is based on quoted market information obtained from the fiscal agent or other sources.

For purposes of the accompanying statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Donated Services

As the agent for the Authority, the City of San José incurs certain administrative costs on behalf of the Authority. The City of San José has not charged the Authority for any of these costs incurred through June 30, 2018. Any such charges would be substantially offset by Additional Payments for administrative costs by the City of San José under the Improvement Agreement. The net effect of the donated services is not material and has not been reflected in the accompanying basic financial statements.

Original Issue Premiums and Loss on Refunding of Debt

Original issue premiums are amortized using the straight-line method over the life of the bonds. Bonds payable are reported net of the applicable bond premium. Loss on refunding of debt are reported as deferred outflows of resources and amortized over the shorter of the life of the refunded debt or refunding debt. Amortization of these balances is reported as a component of interest expense. There are no loss on refunding of debt for the fiscal year ended June 30, 2018.

Prepaid Insurance Costs

Prepaid insurance costs are amortized using the straight-line method over the life of the bonds. Amortization of these balances is reported as a component of operating expenses. There are no prepaid insurance costs for the fiscal year ended June 30, 2018.

**SAN JOSE – SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

The Authority does not have title to the Plant land or any capital improvements to the Plant, and capital assets acquired under the CWFA agreement are conveyed to the Cities in accordance with the provisions of the CWFA Agreement.

Use of Estimates

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

At June 30, 2018, the Authority has a net deficit of \$12,678,428, which is expected to be eliminated in future years through the receipt of Base Payments from the City of San José.

NOTE 4 – RESTRICTED CASH AND CASH EQUIVALENTS

Certain bond resolutions require that amounts be held by a fiscal agent (a trust department of a qualifying financial institution) as trustee for the bondholders. The Authority's bond indenture authorizes the Authority to invest in the following, under applicable State of California laws (including the San José Investment Policy):

Authorized Investment Type	Maximum Maturity	Credit Rating Limits
Federal securities	None	None
Federal agencies and instrumentalities	None	None
Securities or receipts evidencing ownership interest in obligations or specified portions of federal obligations	None	None
Obligations of any state or territory of the United States or any agency or political subdivisions thereof	None	At least as high as each series of the Authority's bonds
Time certificates of deposit	None	Aa or AA for the issuers
Repurchase agreements	None	None
Investment agreements	None	None
State of California Local Agency Investment Fund	None	None
Government money market portfolios or money market funds restricted to obligations issued or guaranteed by the United States	None	Aa or AA
City of San José Investment Portfolio	None	None
Other investments consistent with the City of San José's Investment Policy	None	None

**SAN JOSE – SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

NOTE 4 – RESTRICTED CASH AND CASH EQUIVALENTS (Continued)

Interest Rate Risk – Pursuant to the Authority’s bond indenture, investments shall mature not later than such times as necessary to provide money when reasonably expected to be needed for payments. At June 30, 2018, the Authority invested \$2,204,007 in JP Morgan 100% U.S. Treasury money market funds with a weighted average maturity of 35 days.

Credit Risk – The Authority’s investment in money market fund is rated Aaa-mf by Moody’s Investors Service and AAAM by Standard & Poor’s.

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 the fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 input are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities. The Authority’s investment in JP Morgan U.S. Treasury money market funds are measured using level 1 inputs.

NOTE 5 - BONDS PAYABLE

Series 2009A Bonds

On January 29, 2009, the Authority issued \$21,420,000 of Series 2009A sewer revenue refunding bonds with fixed interest rates ranging from 3.00% to 5.00% maturing from November 15, 2016 through November 15, 2020. The proceeds of the Series 2009A bonds were used to refund the Authority’s Series 2005B variable rate sewer revenue refunding bonds, which were used to refund the Authority’s Series 1995B sewer revenue bonds. The 1995 Bonds were issued to pay for a project to recycle treated wastewater from the San José - Santa Clara Water Pollution Control Plant for irrigation and industrial uses in San José, Santa Clara and Milpitas. Debt service is payable from the Authority’s revenue, which consists of payments to the Authority from Net System Revenues of the sewer system operated by the City of San José.

Changes in long-term debt during the year ended June 30, 2018, were as follows:

	Balance June 30, 2017	Retirements	Balance June 30, 2018	Balance due within one year
Sewer Revenue Bonds				
2009 Series A	\$ 20,695,000	\$ (5,145,000)	\$ 15,550,000	\$ 4,965,000
Unamortized Premium	420,894	(124,709)	296,185	124,709
Total	<u>\$ 21,115,894</u>	<u>\$ (5,269,709)</u>	<u>\$ 15,846,185</u>	<u>\$ 5,089,709</u>

**SAN JOSE – SANTA CLARA
CLEAN WATER FINANCING AUTHORITY**
(A Component Unit of the City of San José, California)
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

NOTE 5 - BONDS PAYABLE (Continued)

Annual future bond principal and interest repayments as of June 30, 2018, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 4,965,000	\$ 558,663	\$ 5,523,663
2020	5,175,000	352,087	5,527,087
2021	5,410,000	116,200	5,526,200
Total	<u>\$ 15,550,000</u>	<u>\$ 1,026,950</u>	<u>\$ 16,576,950</u>

Revenues Pledged for Future Debt Service

The City of San José has pledged, as security for bonds issued by the Authority, a portion of the Net System Revenues of the sewer system operated by the City of San José that is restricted for purposes of irrigation and industrial uses in San José, Santa Clara, and Milpitas in the recycle treated wastewater from the San José - Santa Clara Water Pollution Control Plant. The bonds issued by the Authority in 2009 in the amount of \$21,420,000, to provide financing for various capital projects of the Authority, are payable through 2021. The City of San José has committed to appropriate each year, from the Net System Revenues, amounts sufficient to cover the principal and interest requirements on the Authority's debt. The Authority has pledged, as the sole security for the bonds, the annual appropriations from the City of San José. Total principal and interest remaining on the debt is \$16,576,950 with annual requirements ranging from \$5,523,663 to \$5,527,087 through 2021. For the year ended June 30, 2018, debt services paid by the Authority and the Base Payments made from City of San José Net System Revenues were \$5,880,587 and \$5,879,470, respectively.

NOTE 6 – ADVANCE FROM THE CITY OF SAN JOSE

During the year ended June 30, 2017, the City of San José's Wastewater Treatment System enterprise fund advanced \$2,139,375 to the Authority. The Authority deposited the funds received into the 2009A Bonds reserve accounts in order to satisfy the Debt Service Reserve Requirement pursuant to the bond indenture. The advance bears no interest and will be repaid to the City of San José when the Debt Service Reserve Requirement is met through the surety policy issued by Financial Security Assurance, Inc. or when no bonds remain outstanding. At June 30, 2018, the balance of the advance from the City of San José is \$2,139,375.



**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors
San José – Santa Clara Clean Water Financing Authority
San José, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the San José – Santa Clara Clean Water Financing Authority (the Authority), a component unit of the City of San José (the City), California, 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, and have issued our report thereon dated December 3, 2018.

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 opinion 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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

Macias Gini & O'Connell LLP

Walnut Creek, California
December 3, 2018



Independent Auditor's Report

City Council
City of San José, California

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San José, California (City), as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2019.

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the accounting provisions of Section 5.2 of the Improvement Agreement between the San José-Santa Clara Clean Water Financing Authority, the City of Santa Clara, and the City, dated July 1, 1982, as amended and supplemented, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced accounting provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the governing bodies and management of the San José-Santa Clara Clean Water Financing Authority, the City of Santa Clara, and the City, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 14, 2019



INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Santa Clara, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara, California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents. We did not audit the component unit financial statements of the Santa Clara Stadium Authority (Stadium Authority), as of and for the year ended March 31, 2019, which is both a major fund and 35.9%, 5.1%, and 15.9% of the assets, net position and revenues, respectively, of the business-type activities.

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 the 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. The financial statements of the Stadium Authority were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Stadium Authority, is based solely on the report of other auditors. We also did not audit the financial statements of Northern California Power Agency (NCPA), Transmission Agency of Northern California (TANC) and San Jose-Santa Clara Regional Wastewater Facility and Clean Water Financing Authority (SJSC) as of and for the year ended June 30, 2018, related to the calculation of the Investments in Joint Ventures. The Investment in these Joint Ventures collectively represents 7.8%, 15.5% and 0.0%, respectively, of total assets, net position and revenues of the business-type activities. The financial statements of the NCPA, TANC and SJSC were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the calculation of the Investments in Joint Ventures, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 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 and other Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Supplemental Information, and Statistical Section 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 Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Mane & Associates

Pleasant Hill, California
December 19, 2019