



# BAY AREA CLEAN WATER AGENCIES

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

BASIC FINANCIAL STATEMENTS

Focused  
on YOU



BAY AREA CLEAN WATER AGENCIES  
BASIC FINANCIAL STATEMENTS  
For The Years Ended June 30, 2020 and 2019

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Bay Area Clean Water Agencies  
Oakland, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Bay Area Clean Water Agencies (BACWA) as of and for the year ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the BACWA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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



To the Board of Directors  
Bay Area Clean Water Agencies  
Oakland, California

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bay Area Clean Water Agencies, as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2020 on our consideration of BACWA'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 BACWA'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 BACWA's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lance, Soll &amp; Lughard, LLP".

Sacramento, California  
September 2, 2020

## **BAY AREA CLEAN WATER AGENCIES**

### **Management's Discussion and Analysis**

**June 30, 2020 and 2019**

This section presents management's analysis of the Bay Area Clean Water Agencies (BACWA) financial condition and activities as of and for the years ended June 30, 2020 and 2019. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the Agency's basic financial statements. The MD&A represents management's examination and analysis of the Agency's financial condition and performance.

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

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

#### **Organization and Business**

The Bay Area Dischargers Association (BADA) was created as a public entity in accordance with the terms of a Joint Powers Agreement, dated January 4, 1984, for the purpose of collecting, interpreting and disseminating data on the aquatic life and quality of waters of the San Francisco Bay System (the Bay) with emphasis on pollution-related effects. Renamed BACWA on February 22, 2001, it is composed of BADA's five original signatory agencies ("BACWA principals"): East Bay Municipal Utility District (EBMUD), a public corporation; Central Contra Costa Sanitary District (CCCSD), a public corporation; East Bay Dischargers Authority (EBDA), a joint powers public corporation; the City and County of San Francisco (San Francisco), a municipal corporation; and the City of San Jose (San Jose), a municipal corporation. BACWA membership includes other San Francisco Bay Area sanitation agencies who are not BACWA principals. BACWA members contribute funds to cover operating expenses based on an annual work plan and budget, in accordance with sections 9 and 10 of BACWA's Joint Powers Agreement. There are thirteen associate members and forty-six affiliate members that contribute a minimum of \$8,364 and \$1,675 annually, respectively.

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

#### **Overview of the Financial Statements**

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

BACWA's financial statements include:

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

## BAY AREA CLEAN WATER AGENCIES

### Management's Discussion and Analysis

June 30, 2020 and 2019

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

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

The *notes to basic financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages 9 to 15 of this report.

### Financial Analysis:

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

**Table 1**  
**Summary of Net Position**

	June 30, 2020 and 2019		
	2020	2019	Variance
Current assets	<u>\$ 4,277,411</u>	<u>\$ 4,814,772</u>	<u>\$ (537,361)</u>
Current liabilities	<u>360,991</u>	<u>774,871</u>	<u>(413,880)</u>
Net Postion			
Restricted for operating projects	14,923	194,982	(180,059)
Unrestricted	<u>3,901,497</u>	<u>3,844,919</u>	<u>56,578</u>
Total net position	<u>\$ 3,916,420</u>	<u>\$ 4,039,901</u>	<u>\$ (123,481)</u>

- Current Assets decreased by \$537,361 primarily due to the decrease in investments and Proposition 84 grant receivable.
- Current liabilities decreased by \$413,880 primarily due to the decrease in accounts payable.

## BAY AREA CLEAN WATER AGENCIES

### Management's Discussion and Analysis

June 30, 2020 and 2019

**Table 2**

#### **Summary of Revenues, Expenses and Changes in Net Position**

**Years ended June 30, 2020 and 2019**

	2020	2019	Variance
Operating revenues	\$ 3,391,446	\$ 4,572,897	\$ (1,181,451)
Operating Expenses	<u>(3,563,521)</u>	<u>(4,580,066)</u>	<u>1,016,545</u>
Net Operating Income/(Loss)	(172,075)	(7,169)	(164,906)
Nonoperating revenues	<u>48,594</u>	<u>67,850</u>	<u>(19,256)</u>
Total net position	<u><u>\$ (123,481)</u></u>	<u><u>\$ 60,681</u></u>	<u><u>\$ (184,162)</u></u>

- Operating revenue decreased by \$1,181,451 primarily due to decrease in Proposition 84 grant disbursements and an increase in Nutrient Surcharge Contributions.
- Operating expenses decreased by \$1,016,545 primarily due to the decrease in Proposition 84 grant disbursements and an increase in expenses for contributions in funding Nutrient Management.
- Non-operating revenues for the years ended June 30, 2020 and 2019 consisted primarily of interest income. The decrease of \$19,256 is due to the decrease in interest rates.

#### **Request for Information**

This financial report is designed to provide viewers with a general overview of The Bay Area Clean Water Agencies' finances and demonstrate BACWA's accountability for the monies it manages. If you have any questions about this report, or need additional information, please contact: the BACWA Treasurer, Damien Charléty, PO Box 24055, MS 809, Oakland, CA 94623.

**BAY AREA CLEAN WATER AGENCIES**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2020 AND JUNE 30, 2019**

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note 2)	\$ 1,923,426	\$ 1,977,231
Investments (Note 2)	2,262,600	2,562,700
Restricted Cash and cash equivalents	65,500	65,500
Accounts receivable	2,638	214
Prop 84 grant receivable	14,923	194,982
Accrued interest receivable	<u>8,324</u>	<u>14,145</u>
Total assets	<u>4,277,411</u>	<u>4,814,772</u>
<b>LIABILITIES</b>		
Accounts payable	295,491	709,371
Miscellaneous liabilities	<u>65,500</u>	<u>65,500</u>
Total liabilities	<u>360,991</u>	<u>774,871</u>
<b>NET POSITION (Note 1B)</b>		
Restricted	14,923	194,982
Unrestricted	<u>3,901,497</u>	<u>3,844,919</u>
Total net position	<u>\$ 3,916,420</u>	<u>\$ 4,039,901</u>

See accompanying notes to financial statements



**BAY AREA CLEAN WATER AGENCIES  
STATEMENTS OF REVENUE, EXPENSE  
AND CHANGES IN NET POSITION  
FOR YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Operating income:		
Member contributions	\$ 1,368,275	\$ 1,319,585
State grants	-	2,254,464
Other receipts	<u>2,023,171</u>	<u>998,848</u>
Total operating revenue	3,391,446	4,572,897
Operating expense:		
Professional services	(2,933,941)	(1,763,977)
General and administrative	(484,737)	(448,221)
Grants and other	<u>(144,843)</u>	<u>(2,367,868)</u>
Total operating expense	<u>(3,563,521)</u>	<u>(4,580,066)</u>
Operating Income	(172,075)	(7,169)
Nonoperating revenue:		
Interest income	<u>48,594</u>	<u>67,850</u>
Changes in net position	(123,481)	60,681
Total net position - beginning	<u>4,039,901</u>	<u>3,979,220</u>
Total net position - ending	<u><u>\$ 3,916,420</u></u>	<u><u>\$ 4,039,901</u></u>

See accompanying notes to financial statements

**BAY AREA CLEAN WATER AGENCIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from member contributions	\$ 1,545,910	\$ 1,531,458
Cash received from State Grants	-	2,254,464
Cash received from other receipts	2,023,171	998,848
Cash paid for supplies and services	<u>(3,977,401)</u>	<u>(3,993,932)</u>
Net Cash from Operating Activities	(408,320)	790,838
Cash flows from investing activities:		
Interest received on investments	<u>54,415</u>	<u>63,990</u>
Net (decrease) increase in cash and cash equivalents	(353,905)	854,828
Cash and equivalents at beginning of period	<u>4,605,431</u>	<u>3,750,603</u>
Cash and equivalents at end of period	<u><u>\$ 4,251,526</u></u>	<u><u>\$ 4,605,431</u></u>
Reconciliation of net operating income (loss) to net cash provided by operating activities:		
Operating loss	\$ (172,075)	\$ (7,169)
Adjustments to reconcile operating loss to cash flows from operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	177,635	211,873
Accounts payable and miscellaneous liabilities	<u>(413,880)</u>	<u>586,134</u>
Net cash flow used by operating activities	<u><u>\$ (408,320)</u></u>	<u><u>\$ 790,838</u></u>

See accompanying notes to financial statements

**BAY AREA CLEAN WATER AGENCIES  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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**A. Description of Reporting Entity**

The Bay Area Clean Water Agencies (BACWA) was organized on January 4, 1984 as the Bay Area Dischargers Association (BADA), and changed its name to BACWA effective February 22, 2001. BACWA was established for the purpose of collecting, interpreting and disseminating data on the aquatic life and quality of waters of the San Francisco Bay System with emphasis on pollution-related effects. BACWA is composed of five original BADA signatory agencies: East Bay Municipal Utility District (EBMUD), a public corporation; Central Contra Costa Sanitary District (CCCSD), a public corporation; East Bay Dischargers Authority (EBDA), a joint powers public corporation; the City and County of San Francisco (San Francisco), a municipal corporation; and the City of San Jose (San Jose), a municipal corporation. BACWA membership includes other San Francisco Bay Area sanitation agencies who are not BACWA principals. BACWA principals and other members contribute funds to cover operating expenses based on an annual work plan and budget, in accordance with Sections 9 and 10 of BACWA's Joint Powers Agreement. There are thirteen associate members and forty-six affiliate members that contribute a minimum of \$8,364 and \$1,675 annually, respectively BACWA has the following special programs in the fiscal year 2020. Each special program's revenues and expenses are tracked separately from BACWA's other revenues and expenses.

- *State Proposition 84 (Prop84)* is a California Department of Water Resources (DWR) program to administer funds consistent with the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Projection Bond Act of 2006. BACWA applied for and was awarded a Prop 84 grant, State Grant No. 4600009715. The Prop 84 revenue and expenses include disbursements from DWR, disbursements to participating agencies, and administrative costs.
- *The Water Quality Attainment Strategies (WQAS)* is a program to develop and fund regional projects that benefit participants. The program changed its name to the Clean Bay Collaborative during Fiscal Year 2010. Revenues come from contributions from program participants and expenditures are determined by the BACWA principals.
- *Water/Wastewater Operator Training (WOT)* was a program formed with Solano County Community College to provide water operators with educational training to help them understand the standard environmental rules and regulations related to water and wastewater. Revenues are provided by participating agencies and expenditures determined by those agencies. BACWA continues its educational relationship with Solano Community College.
- *Bay Area Biosolids Coalition (BABC)* - The Bay Area Biosolids Coalition became a Special Benefits Program in FY 20, where the participants establish their budget and associated revenue needs. BABC is a regional collaboration between San Francisco Bay Area wastewater agencies that are working to develop sub-regional projects with a primary focus on beneficial use of biosolids.

**BAY AREA CLEAN WATER AGENCIES  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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***B. Basis of Accounting and Presentation***

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

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

BACWA distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing deliverable goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for BACWA include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

*Net Investment in Capital Assets* describes an agency's capital assets, including restricted capital assets, net of accumulated depreciation and reduced by any outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

*Statement of Revenues, Expenses, and Changes in Net Position* – The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

When both restricted and unrestricted resources are available for use, it is BACWA's policy to use restricted resources first, then unrestricted resources as they are needed.

**BAY AREA CLEAN WATER AGENCIES  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

<b>NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)</b>
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***C. Use of Estimates***

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

***D. Cash and Cash Equivalents***

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

***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. BACWA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

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

***E. Allocation of Costs***

In accordance with the adopted work plan and approved budget for the year ended June 30, 2020, all costs incurred by BACWA for general overhead and for programs with general benefit are shared by BACWA members consistent with the terms of the Joint Powers Agreement establishing the agency, between each of the original signatory members.

Costs incurred for programs of special benefit are allocated in direct proportion to the benefits received as approved by BACWA's Executive Board.

Prop 84 and WOT have their own budgets, and their expenditures are funded from their own separate revenues.

**BAY AREA CLEAN WATER AGENCIES  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

<b>NOTE 2 - CASH AND INVESTMENTS</b>
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**A. Composition**

BACWA's cash and cash equivalents consisted of the following at June 30:

	<b>2020</b>	<b>2019</b>
Demand deposits with banks	\$ 1,988,926	\$ 2,042,731
U.S. Government-Sponsored Enterprise Agencies (callable)	-	300,100
Local Agency Investment Fund	2,262,600	2,262,600
	<u>\$ 4,251,526</u>	<u>\$ 4,605,431</u>

**B. Collateralization of Cash and Cash Equivalents**

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

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

**C. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2020 and 2019.

**BAY AREA CLEAN WATER AGENCIES  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

***D. Fair Value Hierarchy***

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

The following is a summary of the fair value hierarchy of the fair value of investments of the District as of June 30, 2020 and 2019:

<b>2020</b>		
<b>Type</b>	<b>Level 2</b>	<b>Total</b>
U.S. Government-Sponsored Enterprise Agencies (callable)	\$ -	\$ -
Total Investments at Fair Value	<u>\$ -</u>	<u>-</u>

**Investments Not Subject to Fair Value Hierarchy**

California Local Agency Investment Fund	-	2,262,600
Cash in Banks	<u>-</u>	<u>1,988,926</u>
Total Cash, Cash Equivalents and Investments	<u>\$ -</u>	<u>\$ 4,251,526</u>

<b>2019</b>		
<b>Type</b>	<b>Level 2</b>	<b>Total</b>
U.S. Government-Sponsored Enterprise Agencies (callable)	\$ 300,100	\$ 300,100
Total Investments at Fair Value	<u>\$ 300,100</u>	<u>300,100</u>

**Investments Not Subject to Fair Value Hierarchy**

California Local Agency Investment Fund	-	2,262,600
Cash in Banks	<u>-</u>	<u>2,042,731</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 300,100</u>	<u>\$ 4,605,431</u>

**BAY AREA CLEAN WATER AGENCIES  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

For the year ended June 30, 2019, federal agency securities totaling \$300,100, classified in Level 2 of the fair value hierarchy, are valued using matrix pricing techniques maintained by various pricing vendors. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

***E. Interest Rate Risk***

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

***F. Local Agency Investment Fund (LAIF)***

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

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

As of June 30, 2020 and 2019, BACWA had investments of \$2,262,600 and \$2,262,600, respectively, invested in LAIF, which had invested 3.37% and 1.77% of the pooled investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.004912795 and 1.001711790 as of June 30, 2020 and 2019, respectively was used to calculate the fair value of the investments in LAIF.

**NOTE 3 – RELATED PARTY TRANSACTION**

As BACWA does not have any employees, EBMUD provides BACWA with ongoing treasury, accounting and auditing pass-through costs, and certain technical (laboratory) services, which are reimbursed by BACWA and the related organizations on no less than a quarterly basis. Total reimbursements for the year ended June 30, 2020 and 2019, were \$29,028 and \$27,032 respectively, and are primarily reflected in the general and administrative expenditures on the Statement of Revenues, Expenditures, and Changes in Net Position.



**BAY AREA CLEAN WATER AGENCIES  
BASIC FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

<b>NOTE 4 – RISK MANAGEMENT</b>
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BACWA's liability and property risks are insured by commercial insurance carriers. Selected insurance coverage includes:

<b>Coverage</b>	<b>Policy Limit</b>
Bodily injury	\$ 5,000,000
Property damage	5,000,000
Personal injury	5,000,000
Non-owned and hired automobile liability	5,000,000
Public officials, errors and omissions	5,000,000
Fire damage liability	1,000,000
Employment practices liability	2,000,000
Security and privacy liability	10,000,000

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



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

To the Board of Directors  
Bay Area Clean Water Agencies  
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Bay Area Clean Water Agencies (BACWA), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise BACWA's basic financial statements, and have issued our report thereon dated September 2, 2020.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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.



To the Board of Directors  
Bay Area Clean Water Agencies  
Oakland, California

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether BACWA'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 Agencies internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agencies internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Lance, Soll &amp; Lughard, LLP".

Sacramento, California  
September 2, 2020