



Budget & Finance Committee
Tuesday, November 3, 2020 at 1:00 PM
Valley Sanitary District Board Room
45-500 Van Buren Street, CA 92201

*******SPECIAL NOTICE – Telephonic Accessibility*******

Pursuant to Paragraph 11 of Executive Order N-25-20, executed by the Governor of California on March 12, 2020, as a response to mitigating the spread of coronavirus known as COVID-19, during the November 3, 2020, regular meeting of the Budget & Finance Committee members of the public will be allowed to attend and address the Board of Directors during the open session of the meeting telephonically.

Members of the public wanting to listen to the open session of the meeting may do so by calling (425) 436-6376 and when prompted, enter access code 166514. Members of the public wanting to address the Board, either during public comment or for a specific agenda item, or both, are requested to send an email notification no later than 12:30 p.m. on the day of the meeting to the Valley Sanitary District's Clerk of the Board at hgould@valley-sanitary.org.

Page







1. CALL TO ORDER

1.1. Roll Call

2. PUBLIC COMMENT

This is the time set aside for public comment on any item not appearing on the agenda. Please notify the Secretary in advance of the meeting if you wish to speak on a non-hearing item.

3. DISCUSSION / ACTION ITEMS

- | | | |
|------|---|---------|
| 3.1. | Audit Update and Involvement | 3 - 66 |
| | 3.1 Audit Update and Involment.pdf  | |
| | 3.1 Attachment A Draft Comprehensive Annual Financial Report.pdf
 | |
| 3.2. | Sewer Rate Study Update | 67 |
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| 3.3. | Discuss COLA Increase for Employees | 68 |
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| 3.4. | Discuss Draft RFP Auditing Services | 69 - 79 |
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4. FUTURE MEETING ITEMS

5. ADJOURNMENT

Pursuant to the Brown Act, items may not be added to this agenda unless the Secretary to the Board has at least 72 hours advance notice prior to the time and date posted on this notice.



**Valley Sanitary District
Budget & Finance Committee
November 3, 2020**

TO: Budget & Finance Committee

FROM: Jeanette Juarez, Business Services Manager

SUBJECT: Audit Update and Involvement

<input type="checkbox"/> Board Action	<input type="checkbox"/> New Budget Approval	<input type="checkbox"/> Contract Award
<input checked="" type="checkbox"/> Board Information	<input type="checkbox"/> Existing FY Approved Budget	<input type="checkbox"/> Closed Session

Executive Summary

The purpose of this report is to provide an Audit Update and Involvement before the Audit report is presented to the full Board at the November 10, 2020 meeting.

Strategic Plan Compliance

This item complies with VSD Strategic Plan Objective 5: Long-Term Financial Strength.

Fiscal Impact

Total assets and total net position increased by \$3.45 million, from \$97.25 million to \$100.70 million.

Background

In accordance to Generally Accepted Accounting Principles (GAAP) for State and local governments, the District prepares a Comprehensive Annual Financial Report (CAFR) for the fiscal year.

The District’s external financial auditors, The Pun Group, completed the field work and have submitted a draft opinion letter included in the CAFR. Overall, the auditors provided an unmodified opinion of the District’s financial reports. Frances Kuo, CPA, The Pun Group will be providing the Board with a presentation at the November 10, 2020 Board meeting.

Recommendation

Staff recommends that the Budget & Finance Committee receive and file the draft financial report for fiscal year ending June 30, 2020.

Attachments

Attachment A: Draft Comprehensive Annual Report

Valley Sanitary District

Indio, California

Comprehensive Annual Financial Report

For the Years Ended June 30, 2020 and 2019

Prepared by:
Administration and Finance Department

Draft 10.16.2020

Valley Sanitary District

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Valley Sanitary District
Indio, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund financial statements of the Valley Sanitary District (the "District"), California, as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise the District'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 opinions on these financial statements based on our audits. We conducted our audits 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 audits 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the fiduciary fund financial statements of the District as of June 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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, the Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Contributions - Pensions, the Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios, and the Schedules of Contributions – Other Postemployment Benefits on pages 5 through 12, 55 through 56 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section, the Schedules of Operating Expenses, the Schedules of Changes in Fiduciary Assets and Liabilities – Agency Fund and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Operating Expenses and the Schedules of Changes in Fiduciary Assets and Liabilities – Agency Fund, 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 audits 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 Schedules of Operating Expenses and the Schedules of Changes in Fiduciary Assets and Liabilities – Agency Fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and the Statistical Sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

To the Board of Directors
of the Valley Sanitary District
Indio, California
Page 3

Other Reporting Required by *Government Auditing Standards*

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

Santa Ana, California
NEED DATE, 2020

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BASIC FINANCIAL STATEMENTS

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Valley Sanitary District
Statements of Net Position
June 30, 2020 and 2019

	Business-type Activities	
	2020	2019
ASSETS		
Current assets:		
Cash and investments	\$ 54,150,457	\$ 49,192,557
Accounts receivable, net	383,581	693,944
Interest receivable	177,659	279,942
Inventories of materials	128,557	123,733
Prepaid items	361,680	318,124
Total current assets	55,201,934	50,608,300
Noncurrent assets:		
Capital assets, not being depreciated	1,166,821	740,664
Capital assets, being depreciated	63,997,994	66,309,837
Investment in joint venture	155,000	130,000
Total noncurrent assets	65,319,815	67,180,501
Total assets	120,521,749	117,788,801
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding, net	247,769	289,646
Deferred outflows of resources related to pensions	1,486,255	1,250,545
Deferred outflows of resources related to other postemployment benefits	42,947	14,136
Total deferred outflows of resources	1,776,971	1,554,327
LIABILITIES		
Current liabilities:		
Accounts payable	388,476	308,465
Accrued payroll and related liabilities	190,485	167,833
Interest payable	17,224	19,932
Compensated absences, due within one year	315,481	264,042
Bonds payable, due within one year	685,000	650,000
Loans payable, due within one year	345,161	339,391
Total current liabilities	1,941,827	1,749,663
Noncurrent liabilities:		
Compensated absences, due in more than one year	199,017	174,729
Bonds payable, due in more than one year	4,474,697	5,260,209
Loans payable, due in more than one year	11,901,885	12,247,046
Net pension liabilities	2,772,698	2,490,030
Net other postemployment benefits liabilities	175,673	135,252
Total noncurrent liabilities	19,523,970	20,307,266
Total liabilities	21,465,797	22,056,929
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	131,956	35,698
Deferred inflows of resources related to other postemployment benefits	-	63
Total deferred inflows of resources	131,956	35,761
NET POSITION		
Net investment in capital assets	48,005,841	48,102,837
Restricted for debt service	2,005,722	2,005,722
Unrestricted	50,689,404	47,141,879
Total net position	\$ 100,700,967	\$ 97,250,438

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Valley Sanitary District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2020 and 2019

	Business-type Activities	
	2020	2019
OPERATING REVENUES:		
Sewer service charges	\$ 11,198,100	\$ 11,139,580
Connection fees	832,348	1,010,031
Permit and inspection fees	21,225	25,390
Other services	13,640	10,950
Total operating revenues	12,065,313	12,185,951
OPERATING EXPENSES:		
General and administrative	2,270,072	1,804,611
Sewage collection	2,903,125	3,367,054
Sewage treatment	2,792,483	2,361,681
Depreciation	2,578,816	2,451,371
Total operating expenses	10,544,496	9,984,717
NET OPERATING INCOME	1,520,817	2,201,234
NONOPERATING REVENUES (EXPENSES):		
Property taxes	902,872	862,297
Homeowners' tax relief	6,203	5,873
Investment income	1,143,028	1,193,840
Interest expenses	(391,814)	(428,612)
Other revenues	239,253	25,628
Gain (loss) on disposal of assets	30,170	(2,120,122)
Total nonoperating revenues (expenses)	1,929,712	(461,096)
CHANGE IN NET POSITION	3,450,529	1,740,138
NET POSITION:		
Beginning of year	97,250,438	95,510,300
End of year	\$ 100,700,967	\$ 97,250,438

Valley Sanitary District
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	Business-type Activities	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 12,375,676	\$ 12,235,472
Cash payments to suppliers and vendors for goods and services	(3,482,398)	(3,570,393)
Cash payments to employees for services	(4,198,509)	(4,009,205)
Net cash provided by operating activities	4,694,769	4,655,874
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes	902,872	862,297
Homeowners' tax relief	6,203	5,873
Other nonoperating revenues	239,253	25,628
Net cash provided by noncapital financing activities	1,148,328	893,798
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(693,130)	(641,329)
Proceeds from sale of assets	30,170	35,908
Principal paid on bonds payable	(650,000)	(620,000)
Interest paid on bonds and loans payable	(453,157)	(489,831)
Principal paid on loans payable	(339,391)	(333,718)
Net cash (used in) capital and related financing activities	(2,105,508)	(2,048,970)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	1,245,311	1,092,972
Cash payment to joint venture	(25,000)	(25,000)
Net cash provided by investing activities	1,220,311	1,067,972
Net increase in cash and cash equivalents	4,957,900	4,568,674
CASH AND CASH EQUIVALENTS:		
Beginning of year	49,192,557	44,623,883
End of year	\$ 54,150,457	\$ 49,192,557

Valley Sanitary District
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2020 and 2019

	Business-type Activities	
	2020	2019
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 1,520,817	\$ 2,201,234
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,578,816	2,451,371
Changes in operating assets and liabilities:		
Accounts receivable	310,363	49,521
Inventories of materials	(4,824)	(33,761)
Prepaid items	(43,556)	12,485
Pensions related deferred outflows of resources	(235,710)	(197,470)
OPEB related deferred outflows of resources	(28,811)	13,463
Accounts payable	80,011	165,286
Accrued payroll and related liabilities	22,652	19,926
Compensated absences	75,727	49,779
Net pension liability	282,668	(61,251)
Other postemployment benefits liability	40,421	5,201
Pensions related deferred inflows of resources	96,258	(19,973)
OPEB related deferred inflows of resources	(63)	63
Net cash provided by operating activities	\$ 4,694,769	\$ 4,655,874
NONCASH ITEMS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Amortization of deferred loss on refunding	\$ 41,877	\$ 41,877
Amortization of premium	\$ (100,512)	\$ (100,512)

Valley Sanitary District
Statements of Fiduciary Assets and Liabilities
June 30, 2020 and 2019

	Fiduciary Fund	
	2020	2019
ASSETS		
Cash and investments	\$ 691,120	\$ 666,784
Cash with fiscal agent	629,134	623,134
Assessment receivable	8,831	15,129
Interest receivable	2,401	4,042
Total assets	\$ 1,331,486	\$ 1,309,089
LIABILITIES		
Due to bondholders	\$ 1,331,486	\$ 1,309,089
Total liabilities	\$ 1,331,486	\$ 1,309,089

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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Valley Sanitary District
Notes to the Basic Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 1 – Reporting Entity

Valley Sanitary District (the “District”) was formed on June 1, 1925 under the Health and Safety Code, Sanitary District Act of 1923, Section 6400 et. seq., for the purpose of operation and maintenance of sewer collection, transmission and treatment facilities, and serving a population of approximately 89,000 in the City of Indio, portions of the City of Coachella, and adjacent unincorporated areas of the County of Riverside. The District is a municipal corporation governed by a 5-member elected board of directors.

The accompanying financial statements present the District and its component unit, an entity for which the District is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

Blended Component Unit

Valley Sanitary District Wastewater Facilities Corporation (the “Corporation”) was activated in 2006 by the District. The Corporation was organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California, being Part 2 of Division 2 of Title 1 of the California Corporation Code. It was formed for the purpose of providing financial assistance to the District by acquiring, constructing, improving and developing certain real and personal property, together with appurtenances and appurtenant work for the use, benefit and enjoyment of the public. The District’s Board of Directors sits as the Corporation’s Board of Directors. The Corporation’s activities are blended with those of the District in these financial statements. There was no activity in the Corporation until the fiscal year 2007-2008. Separate financial statements of the Corporation are not issued.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (“GASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Business-Type Activities

The Financial Statements (i.e., the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows) report information on all of the activities of the primary government and its component units. The District accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Business-Type Activities (Continued)

The Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as “operating income” in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, settlement receivable allowance, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

The District reports an *Agency Fund*. Agency fund financial statements include a Statement of Fiduciary Net Position. The Agency Fund is purely custodial in nature (assets equal liabilities), and thus does not involve measurement of results of operations. The Agency Fund is used to account for assets for the Assessment District No. 2004 (Shadow Hills Interceptor) for which the District acts as an agent for its debt service activities.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value. Investments are reported at amortized cost, which approximates fair value. Changes in fair value that occur during the fiscal year are recognized as investment income for that fiscal year.

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (“LAIF”), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF’s investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk and to change in interest rates. The reported value of the pool approximates the fair value of the pool shares. The District also participates in CalTrust Medium Term Fund.

Receivables and Allowance for Doubtful Accounts

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. Uncollectable accounts are based on prior experience and management’s assessment of the collectability of existing accounts.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Inventory of Materials

Inventories consist of expendable supplies, spare parts and fittings and are valued at cost using first-in first-out basis.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid items.

Capital Assets

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost was not available. Donated capital assets are valued at acquisition value on the date donated. The District policy has set the capitalization threshold for reporting capital assets at \$5,000, all of which must have an estimated useful life in excess of one year. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Subsurface Lines	40 years
General Plant	10-40 years
Machinery and equipment	5-10 years
Collection, Treatment and Disposal Facilities	10-40 years

Major outlays for capital assets are capitalized as projects are constructed, and repairs and maintenance costs are expensed. Interest accrued during capital assets construction, if any, is capitalized as part of the asset cost, net of interest income on construction bond proceeds.

Deferred Outflows of Resources and Deferred Inflows of Resources

The Statement of Net Position reports separate sections for deferred outflows of resources, and deferred inflows of resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Compensated Absences

District policy permits its employees to accumulate not more than two (2) times their current annual vacation. Employees are compensated twelve (12) days of sick leave per year with a maximum accrual not to exceed 120 days. The combined unused vacation and sick pay will be paid to employee or his/her beneficiary upon leaving the District's employment. The amount due will be determined using salary/wage rate in effect at the time of separation.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

For the year ended June 30, 2020

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

For the year ended June 30, 2019

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized using the straight-line method over five (5) years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Other Postemployment Benefits

For purposes of measuring the net other postemployment benefits ("OPEB") liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

For the year ended June 30, 2020

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

For the year ended June 30, 2019

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Other Postemployment Benefits (Continued)

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized using the straight-line method over five (5) years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Long-Term Debt

Debt premiums and discounts are deferred and amortized over the life of the debt using the effective interest method. Long-term debt is reported net of the applicable bond premium or discount. Debt issuance costs are expensed when incurred.

Arbitrage Rebate Requirement

The District is subject to the Internal Revenue Code (“IRC”) Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that investment earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. The District had no rebate liability for arbitrage as of June 30, 2020.

Net Position

Net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets, net of deferred outflows/inflows of resources related to the debt.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 2 – Summary of Significant Accounting Policies (Continued)

Property Taxes

Property taxes are levied on July 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of Riverside, California (“County”) bills and collects property taxes and remits them to the District according to a payment schedule established by the County.

The County is permitted by State law to levy properties at 1% of full market value (at time of purchase) and can increase the property tax rate at no more than 2% per year. The District receives a share of this basic tax levy proportionate to what it received during the years 1976-1978.

Property taxes are recognized in the fiscal year for which the taxes have been levied.

No allowance for doubtful accounts was considered necessary.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

Note 3 – Cash and Investments

At June 30, 2020 and 2019, cash and investments are classified in the accompanying statements of net position as follows:

	2020			2019		
	Business-Type Activities	Fiduciary Fund	Total	Business-Type Activities	Fiduciary Fund	Total
Cash and investments	\$ 54,150,457	\$ 691,120	\$ 54,841,577	\$ 49,192,557	\$ 666,784	\$ 49,859,341
Cash and investments with fiscal agent	-	629,134	629,134	-	623,134	623,134
Total cash and investments	<u>\$ 54,150,457</u>	<u>\$ 1,320,254</u>	<u>\$ 55,470,711</u>	<u>\$ 49,192,557</u>	<u>\$ 1,289,918</u>	<u>\$ 50,482,475</u>

At June 30, 2020 and 2019, cash and investments consisted of the following:

	2020	2019
Cash on hand	\$ 500	\$ 500
Demand deposits	1,920,002	1,966,854
Investments	53,550,209	48,515,121
Total cash and investments	<u>\$ 55,470,711</u>	<u>\$ 50,482,475</u>

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 3 – Cash and Investments (Continued)

Demand Deposits

At June 30, 2020 and 2019, the carrying amount of cash deposit was \$1,920,002 and \$1,966,854, respectively, which was fully insured and/or collateralized with securities held by the pledging financial institutions in the District's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.

The fair value of pledged securities must equal at least 110% of the District's cash deposits. California law also allows institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits. The District may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The District, however, has not waived the collateralization requirements.

Investments Authorized by the California Code and The District's Investment Policy

Under the provisions of the District's investment policy and in accordance with California Government Code, the District is authorized to invest or deposit in the following:

- Local Agency Investment Fund (LAIF) established by the State Treasurer
- Bonds issued by the District with a 5-year maximum maturity
- United States Treasury Bills, Notes and Bonds with a 5-year maximum maturity
- Federally Insured Certificates of Deposit with a 5-year maximum maturity
- Collateralized bank deposits with a 5-year maximum maturity
- Fixed income instruments with an average maturity of one (1) year or less including: Mortgage-backed securities; asset-backed securities; banker's acceptances; commercial paper; certificates of deposits; repurchase agreements backed by 102% U.S. agency securities and U.S. Treasury obligations; medium-term notes; and rated money-market funds. All securities must be rated A- or better at the time of purchase
- United States Government Agency Notes & Bonds with a 5-year maximum maturity
- Shares of Beneficial Interest issued by joint powers authority

Local Agency Investment Fund

The District's investments with Local Agency Investment Fund ("LAIF") include a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- **Structured Notes** - 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 CMO's) or credit card receivables.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 3 – Cash and Investments (Continued)

Local Agency Investment Fund (Continued)

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

As of June 30, 2020 and 2019, the District had \$51,829,740 and \$46,841,897 invested in LAIF, which had invested 3.37% and 1.77% of the pooled investment funds in Structured Notes and Asset-Backed Securities, respectively. LAIF is reported at amortized costs, which approximates fair value.

CalTrust Medium Term Fund

As of June 30, 2020 and 2019, the District had \$1,091,335 and \$1,050,090, respectively, invested in CalTrust Medium Term Fund. CalTrust Medium Term Fund is reported at amortized costs, which approximates fair value.

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 is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District 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. However, the District does not have a formal policy regarding interest rate risk.

As of June 30, 2020, all of the District's investments had maturity dates of twelve (12) months or less.

Disclosures Relating to Custodial Credit Risk

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 District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2020 and 2019, the District had the following investments with the following ratings:

	2020			2019			
	Legal Rating	AAA	Not Rated	Total	AAA	Not Rated	Total
Local Agency Investment Fund	N/A	\$ -	\$ 51,829,740	\$ 51,829,740	\$ -	\$ 46,841,897	\$ 46,841,897
CalTrust Medium Trust Fund	N/A	-	1,091,335	1,091,335	-	1,050,090	1,050,090
Held by bond trustee:							
Money market fund	N/A	629,134	-	629,134	623,134	-	623,134
Total investments		<u>\$ 629,134</u>	<u>\$ 52,921,075</u>	<u>\$ 53,550,209</u>	<u>\$ 623,134</u>	<u>\$ 47,891,987</u>	<u>\$ 48,515,121</u>

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 4 – Accounts Receivable

Accounts receivable primarily consists of sewer use fees - direct billings, connection fees, and reimbursements as well as the District's allocation of property taxes and sewer use charges collected but not remitted by the County of Riverside.

As of June 30, 2020 and 2019, the accounts receivable were as follows:

	2020	2019
Direct billing, connection fee and reimbursement receivables	\$ 125,799	\$ 409,123
Property taxes and sewer use receivable from County of Riverside	257,782	281,993
Other receivables	-	2,828
Total accounts receivables	\$ 383,581	\$ 693,944

Note 5 – Capital Assets

Summary of changes in capital assets for the year ended June 30, 2020 is as follows:

	Balance July 1, 2019	Additions	Deletions	Reclassification	Balance June 30, 2020
Capital assets, not depreciated					
Land	\$ 448,364	\$ -	\$ -	\$ -	\$ 448,364
Construction in progress	292,300	426,157	-	-	718,457
Total capital assets, not depreciated	740,664	426,157	-	-	1,166,821
Capital assets, being depreciated					
Subsurface	20,431,393	-	-	-	20,431,393
Sewage collection facilities	16,628,745	44,315	(74,196)	-	16,598,864
Wastewater treatment facilities	35,492,563	-	(27,403)	-	35,465,160
Sludge disposal facilities	24,711,950	-	-	-	24,711,950
General plant facilities	8,534,858	164,830	(28,141)	-	8,671,547
Laboratory facilities	10,123	22,727	(10,124)	-	22,726
Administrative facilities	93,130	35,101	-	-	128,231
Total capital assets, being depreciated	105,902,762	266,973	(139,864)	-	106,029,871
Less accumulated depreciation					
Subsurface	(12,450,670)	(290,641)	-	-	(12,741,311)
Sewage collection facilities	(3,097,613)	(419,543)	74,196	-	(3,442,960)
Wastewater treatment facilities	(16,517,702)	(717,464)	27,403	-	(17,207,763)
Sludge disposal facilities	(5,099,726)	(669,557)	-	-	(5,769,283)
General plant facilities	(2,373,529)	(454,108)	28,141	-	(2,799,496)
Laboratory facilities	(10,123)	(2,757)	10,124	-	(2,756)
Administrative facilities	(43,562)	(24,746)	-	-	(68,308)
Total accumulated depreciation	(39,592,925)	(2,578,816)	139,864	-	(42,031,877)
Total capital assets, being depreciated, net	66,309,837	(2,311,843)	-	-	63,997,994
Total capital assets, net	\$ 67,050,501	\$ (1,885,686)	\$ -	\$ -	\$ 65,164,815

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 5 – Capital Assets (Continued)

Summary of changes in capital assets for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deletions	Reclassification	Balance June 30, 2019
Capital assets, not depreciated					
Land	\$ 448,364	\$ -	\$ -	\$ -	\$ 448,364
Construction in progress	722,597	239,194	(14,263)	(655,228)	292,300
Total capital assets, not depreciated	1,170,961	239,194	(14,263)	(655,228)	740,664
Capital assets, being depreciated					
Subsurface	20,483,529	-	(52,136)	-	20,431,393
Sewage collection facilities	16,700,965	-	(72,220)	-	16,628,745
Wastewater treatment facilities	39,116,395	-	(3,623,832)	-	35,492,563
Sludge disposal facilities	24,752,529	-	(40,579)	-	24,711,950
General plant facilities	7,615,186	355,801	(91,357)	655,228	8,534,858
Laboratory facilities	31,120	-	(20,997)	-	10,123
Administrative facilities	87,903	46,334	(41,107)	-	93,130
Total capital assets, being depreciated	108,787,627	402,135	(3,942,228)	655,228	105,902,762
Less accumulated depreciation					
Subsurface	(12,211,794)	(291,012)	52,136	-	(12,450,670)
Sewage collection facilities	(2,750,917)	(418,915)	72,219	-	(3,097,613)
Wastewater treatment facilities	(17,331,928)	(671,688)	1,485,914	-	(16,517,702)
Sludge disposal facilities	(4,517,666)	(622,639)	40,579	-	(5,099,726)
General plant facilities	(2,024,700)	(440,186)	91,357	-	(2,373,529)
Laboratory facilities	(27,273)	(127)	17,277	-	(10,123)
Administrative facilities	(77,737)	(6,804)	40,979	-	(43,562)
Total accumulated depreciation	(38,942,015)	(2,451,371)	1,800,461	-	(39,592,925)
Total capital assets, being depreciated, net	69,845,612	(2,049,236)	(2,141,767)	655,228	66,309,837
Total capital assets, net	\$ 71,016,573	\$ (1,810,042)	\$ (2,156,030)	\$ -	\$ 67,050,501

Included in the disposal of wastewater treatment facilities is the Wetlands project developed in 1998. The development of the Wetlands project was a mitigating measure to reduce the environmental impact of the District's wastewater treatment plant expansion in meeting the California Environmental Quality Act ("CEQA") requirement. The wastewater treatment expansion was completed with the construction of Wetlands area to treat primary effluent to secondary effluent standards. No unavoidable adverse significant environmental impacts from the Wetlands project was identified in the initial measurement date of November 13, 1998. Certain mitigation measures were incorporated into the project to reduce the environmental effects to the level of insignificance. During the process of disposing the Wetlands, the District evaluated the environmental impact and obtained approval from United States Environmental Protection Agency on the disposal. It was determined that the District had no asset retirement obligation at June 30, 2019.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 6 – Investment in Joint Venture

On December 18, 2013, the District entered into a joint powers agreement with the City of Indio (the “City”) to form the East Valley Reclamation Authority (the “JPA”) to plan, program, finance, design and operate a reclaimed water facility to bring a sustainable water supply and manage the water resources for the customers of the Indio Water Authority (a blended component unit of the City) and the District. The costs and expenses of the JPA are generally shared equally by the City and the District unless otherwise determined by the JPA’s Board of Directors, except that the District is responsible for 100% of the costs and expenses associated with the design and construction of facilities for the District’s compliance with any permit terms. During both years ended June 30, 2020 and 2019, the District made contribution to the JPA in the amount of \$25,000. As of June 30, 2020 and 2019, the District reported investments in joint venture in the amounts of \$155,000 and \$130,000, respectively. Copies of the annual financial report for the JPA may be obtained from the finance department of the City of Indio.

	June 30,	
	2020*	2019
Total Asset	\$ 259,852	\$ 205,897
Total Liabilities	-	308
Total Net Position	\$ 259,852	\$ 205,589
Operating Loss	\$ (1,286)	\$ (3,973)
Nonoperating Revenues	\$ 55,549	\$ 52,621

*Unaudited balances

Note 7 – Compensated Absences

Summary of changes in compensated absences for the year ended June 30, 2020 and 2019 is as follows:

Year Ended	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year	Due in More Than One Year
June 30, 2020	\$ 438,771	\$ 334,373	\$ (258,646)	\$ 514,498	\$ 315,481	\$ 199,017
June 30, 2019	388,992	334,141	(284,362)	438,771	264,042	174,729

Note 8 – Long-term Debt

Summary of changes in long-term debt for the year ended June 30, 2020 is as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
2015 Wastewater Revenue Refunding Bonds	\$ 5,215,000	\$ -	\$ (650,000)	\$ 4,565,000	\$ 685,000	\$ 3,880,000
Bond Premium, net of amortization	695,209	-	(100,512)	594,697	-	594,697
State Water Resources Control Board Revolving Fund Loan	12,586,437	-	(339,391)	12,247,046	345,161	11,901,885
Total long-term debt	\$ 18,496,646	\$ -	\$ (1,089,903)	\$ 17,406,743	\$ 1,030,161	\$ 16,376,582

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 8 – Long-term Debt (Continued)

Summary of changes in long-term debt for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due within One Year	Due in More Than One Year
2015 Wastewater Revenue Refunding Bonds	\$ 5,835,000	\$ -	\$ (620,000)	\$ 5,215,000	\$ 650,000	\$ 4,565,000
Bond Premium, net of amortization	795,721	-	(100,512)	695,209	-	695,209
State Water Resources Control Board Revolving Fund Loan	12,920,155	-	(333,718)	12,586,437	339,391	12,247,046
Total long-term debt	\$ 19,550,876	\$ -	\$ (1,054,230)	\$ 18,496,646	\$ 989,391	\$ 17,507,255

2015 Wastewater Revenue Refunding Bonds

On August 26, 2006, the District issued the 2006 Certificates of Participation in the amount of \$12,915,000. The purpose of the Certificates was to fund Phase I of the District's treatment plant expansion. Interest ranging from 3.50% to 4.375% is payable semi-annually on February 1st and August 1st commencing February 1, 2007.

On June 18, 2015, the District issued Wastewater Revenue Refunding Bonds, Series 2015 in the amount of \$7,540,000. The purpose of the bond issuance was to provide funds to defease and refund on current basis the District's outstanding 2006 Certificates of Participation (Treatment Plan Expansion) and pay the costs of issuing the bonds. The bonds are payable from and secured by a lien on net revenue of the wastewater system of the District. The aggregate difference in debt service as result of the refinancing was in the amount of \$1,596,780. The economic gain on the refinancing was \$500,181. Interest rate of 5% (except for 2.125% in 2023) is payable semi-annually on each December 1 and June 1 beginning December 1, 2015. The bonds are not subject to redemption prior to maturity. The outstanding balances as of June 30, 2020 and 2019 were in the amounts of \$4,565,000 and \$5,215,000, respectively.

Future debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	685,000	206,688	\$ 891,688
2022	715,000	172,437	887,437
2023	750,000	136,687	886,687
2024	765,000	120,750	885,750
2025	805,000	82,500	887,500
2026	845,000	42,250	887,250
Total	\$ 4,565,000	\$ 761,312	\$ 5,326,312

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 8 – Long-term Debt (Continued)

State Water Resources Control Board Revolving Fund Loan

The District executed the installment sale agreement with the State Water Resources Control Board (the “SWRCB”) for the construction of the Requa Avenue Sewer Interceptor Project. As part of the Requa Avenue Sewer Interceptor Project, the District constructed 4.2 miles of new gravity flow sewer pipeline and related utility improvements designed to collect and convey sanitary sewer flow within an existing public right-of-way through central Indio, California, to the existing District’s Water Reclamation Plant. The SWRCB provided financial assistance. The total amount of the loan funded was \$12,920,155 with no unused credit. There was no pledged asset as collateral. In event of default, the District upon demand by SWRCB, will immediately repay an amount equal to project funds disbursed, accrued interests, penalty assessments, and additional payments. Beginning June 2019, the District will repay the principal of the project funds, together with all interest accruing thereon, annually to the SWRCB. As of June 30, 2020 and 2019, the outstanding balances of the SWRCB revolving fund loan were in the amounts of \$12,247,046 and \$12,586,437, respectively.

Future debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	345,161	208,199	\$ 553,360
2022	351,029	202,332	553,361
2023	356,997	196,363	553,360
2024	363,065	190,296	553,361
2025	369,237	184,124	553,361
2026-2030	1,942,503	824,300	2,766,803
2031-2035	2,113,326	653,478	2,766,804
2036-2040	2,299,170	467,632	2,766,802
Thereafter	4,106,559	320,327	4,426,886
	12,247,047	3,247,051	15,494,098

A reserve account is required to be maintained equal to one (1) year of the SWRCB revolving fund loan debt service payments from unrestricted net revenues. The reserve requirement is \$553,360 for the duration of the loan. The balances held in the reserve at June 30, 2020 and 2019 were in the amounts of \$1,106,722 and \$1,106,722, respectively. Debt covenants of the SWRCB revolving fund loan require that the District have net revenues that are at least 125% of the total debt service payments (including 2015 Wastewater Revenue Refunding Bonds). Net revenue and total debt service paid during the year ended June 30, 2020 were in the amounts of \$4,099,633 and \$1,442,548, respectively, which resulted in ratio of 284%. Net revenue and total debt service paid during the year ended June 30, 2019 were in the amounts of \$4,652,605 and \$1,443,549, respectively, which resulted in ratio of 640%.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 9 – Conduit Debt

Limited Obligation Improvement Bonds

On July 21, 2005, the District issued \$8,080,000 limited obligation improvement bonds, series 2005 for Assessment District No. 2004-VSD (Shadow Hills Interceptor). Interest ranging from 3.05% to 5.20% is payable semi-annually on March 2nd and September 2nd of each year commencing from March 2, 2006. The bonds mature September 2nd commencing September 2, 2007 and continuing through 2030 with optional call dates beginning September 2, 2014.

The bonds are limited obligations of the District payable solely from the installments of assessments levied on the assessment parcels within the District and other funds pledged under the fiscal agent agreement. The District shall only be obligated to pay the principal of the bonds, or the interest thereon, from funds described in the Indenture and neither the faith and credit nor the taxing power of the District, the State of California or any of its political subdivisions is pledged to the payment of principal or interest on the bonds. Therefore, the limited obligation improvement bonds are not included in the accompanying financial statements. As of June 30, 2020 and 2019, the outstanding balances of the bonds were in the amounts of \$5,025,000 and \$5,365,000, respectively.

Note 10 – Pension Plans

General Information about the Pension Plan

Plan Description

The District contributes to the California Public Employees’ Retirement System (“CalPERS”), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2018 and 2017 Annual Actuarial Valuation Report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

Employees Covered by Benefit Terms

At June 30, 2018 and 2017 valuation dates, the following employees were covered by the benefit terms:

	2018		2017	
	Classic	PEPRA	Classic	PEPRA
Active employees	17	7	18	10
Transferred and terminated employees	17	6	18	3
Retired Employees and Beneficiaries	12	-	10	-
Total	46	13	46	13

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 10 – Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Benefit Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A classic CalPERS member becomes eligible for Service Retirement upon attainment of age 55 with at least five (5) years of credited service. Public Employee Pension Reform Act (PEPRA) miscellaneous members become eligible for service retirement upon attainment of age 62 with at least five (5) years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the highest average annual compensation during any consecutive 12-or 36-month period of employment. Retirement benefits for classic miscellaneous employees are calculated as 2.5% of the highest average annual compensation during any consecutive 12-or 36-month period of employment. Retirement benefits for PEPRA miscellaneous employees are calculated as 2% of the average final three (3) year compensation.

Participant is eligible for non-industrial disability retirement if they become disabled and has at least five (5) years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the District to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5% per year, plus a lump sum in the amount of one month salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death. Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2%.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The Public agency cost-sharing plans covered by the miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the measurement period ended June 30, 2019, the active employee contribution rate for miscellaneous plan and PEPRA miscellaneous plan is 8.00% and 6.50% of annual pay, respectively, and the employer's contribution rate is 10.832% and 7.266% of annual payroll, respectively.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 10 – Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Contributions (Continued)

For the measurement period ended June 30, 2018, the active employee contribution rate for miscellaneous plan and PEPPA miscellaneous plan is 8.00% and 6.50% of annual pay, respectively, and the employer’s contribution rate is 10.277% and 6.903% of annual payroll, respectively.

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2018 and 2017 valuations were rolled forward to determine the June 30, 2019 and 2018 total pension liabilities, based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	The lesser of contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

¹The mortality table used in 2018 was developed based on CalPERS’ specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to December 2017 Experience Study Report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website at www.calpers.ca.gov under Forms and Publications.

The mortality table used in 2017 was developed based on CalPERS’ specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to 2014 experience study report.

Change of Assumption

In 2019, there were no changes of assumptions. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. There were no changes in the discount rate.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 10 – Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as followed:

Asset Class ¹	Assumed Asset Allocation	Real Return Years 1-10 ²	Real Return Years 11+ ³
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

¹In the CalPERS' CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

²An expected inflation of 2.00% used

³An expected inflation of 2.92% used

Discount Rate

The discount rate used to measure the total pension liabilities was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 10 – Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liabilities of the Plan as of the measurement date at June 30, 2019 and 2018, calculated using the discount rate of 7.15%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

Measurement Date	Plan's Aggregate Net Pension Liability/(Asset)		
	Discount Rate	Current Discount	Discount Rate
	- 1% (6.15%)	Rate (7.15%)	+ 1% (8.15%)
June 30, 2019	\$ 4,447,553	\$ 2,772,698	\$ 1,390,224
June 30, 2018	3,999,679	2,490,030	1,243,839

Pension Plan Fiduciary Net Position

Detail information about the plan’s fiduciary net position is available in the separately issued CalPERS financial reports and can be obtained from CalPERS’ website under Forms and Publications.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan’s proportionate share of the risk pool collective net pension liability over the measurement period:

	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at: 6/30/18 (Valuation date)	\$ 11,928,870	\$ 9,438,840	\$ 2,490,030
Balance at: 6/30/19 (Measurement date)	13,117,667	10,344,969	2,772,698
Net changes during 2018-2019	1,188,797	906,129	282,668
Balance at: 6/30/17 (Valuation date)	\$ 11,154,724	\$ 8,603,443	\$ 2,551,281
Balance at: 6/30/18 (Measurement date)	11,928,870	9,438,840	2,490,030
Net changes during 2017-2018	774,146	835,397	(61,251)

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 10 – Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool for the measurement periods ended June 30, 2019 and 2018.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2018 and 2017). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2019 and 2018). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2019 and 2018 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2018-2019 and 2017-2018).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan’s share of the actuarial accrued liability. FNP is allocated based on the rate plan’s share of the market value assets.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the measurement date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the measurement date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense is allocate based on the District’s share of risk pool actuarial accrued liability at the beginning of measurement period.

The District’s proportionate share of the net pension liability was as follows:

2020		2019	
Measurement Date		Measurement Date	
June 30, 2018	0.02584%	June 30, 2017	0.02573%
June 30, 2019	0.02706%	June 30, 2018	0.02584%
Change - Increase		Change - Increase	
(Decrease)	0.00122%	(Decrease)	0.00011%

For the years ended June 30, 2020 and 2019, the District recognized pension expense in the amounts of \$859,369 and \$536,288, respectively.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 10 – Pension Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The Expected Average Remaining Service Lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the measurement date ended June 30, 2019 and 2018 are both 3.8 years, which was obtained by dividing the total service years of 530,470 and 516,147 (the sum of remaining service lifetimes of the active employees) by 140,593 and 135,474 (the total number of participants: active, inactive, and retired), respectively.

At June 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contribution after measurement date	\$ 716,153	\$ -	\$ 814,982	\$ -
Changes of assumptions	132,216	(46,869)	229,059	-
Difference between expected and actual experience	192,576	(14,921)	67,368	-
Projected earnings on pension plan investments under/(in excess of) actual earnings	-	(48,479)	13,158	-
Adjustment due to differences in proportions	160,647	-	125,978	-
Employer's actual contributions in excess of/(under) employer's proportionate share of contribution	284,663	(21,687)	-	(35,698)
Total	\$ 1,486,255	\$ (131,956)	\$ 1,250,545	\$ (35,698)

Deferred outflows of resources related to pensions resulting from District’s contributions subsequent to the measurement date in the amount of \$716,153 and \$814,982 will be recognized as a reduction of the collective net pension liability in the years ended June 30, 2021 and 2020, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Deferred Outflows/ (Inflows) of Resources	Year Ending June 30,	Deferred Outflows/ (Inflows) of Resources
	2020		2019
2021	\$ 378,273	2020	\$ 305,550
2022	119,298	2021	190,872
2023	130,780	2022	(72,618)
2024	9,795	2023	(23,939)
2025	-	2024	-
Thereafter	-	Thereafter	-
	\$ 638,146		\$ 399,865

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 10 – Pension Plans (Continued)

Deferred Compensation Plans

The District has made available to its employees four deferred compensation plans, whereby employees authorize the District to withhold funds from salary to be invested. Funds may be withdrawn by participants upon termination of employment or retirement. The District makes no contributions under the plans. Pursuant Internal Revenue Code (“IRC”) Section 457, the plan assets are held in trust in which all assets and income of the 457 plans were placed. The assets, all property and rights purchased with such amount, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of the participants and their beneficiaries. These assets are not the property of the District and, as such, are not subject to the claims of the District's general creditors. As a result, the assets of the 457 plan are not reflected in the financial statements.

Note 11 – Other Postemployment Benefits (“OPEB”)

General Information about the OPEB Plan

Plan Description

The District contributes to a single-employer defined benefit plan to provide postemployment medical benefits. Specifically, the District offers postretirement medical benefits to all employees who retire from the District after attaining age 50 with at least 5 years of service. The plan does not provide a publicly available financial report.

Benefits provided by the plan is as follow:

Benefit Types Provided	Medical only	
Duration of Benefits	Lifetime	
Required Services	5 years	
Minimum Age	50	
Dependent Coverage	Yes	
District Contribution %	100.00%	
District Cap	\$133.00 per month*	\$126.35 per month*
	for measurement	for measurement
	period 18-19	period 17-18

* This amount will increase as provided in California Government Code Section 22892

Employees Covered by Benefit Term

At June 30, 2019 valuation date, the following employees were covered by the benefit term:

Active employees	28
Inactive employees receiving benefits	6
Inactive employees entitled to but not receiving benefits	-
Total	34

Contribution

The obligation of the District to contribute to the plan is established and may be amended by the District’s Board of Directors. For the years ended June 30, 2020 and 2019, the average contribution rate was not applicable. Employees are not required to contribute to the plan. The District made contributions on pay-as-you-go basis.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 11 – Other Postemployment Benefits (Continued)

Net OPEB Liability

The District’s 2020 and 2019 net OPEB liabilities were measured as of June 30, 2019 and 2018, respectively, and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by an actuarial valuation as of June 30, 2019 and 2017, respectively.

Actuarial Assumptions

Total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method:	Entry age actuarial cost method
Actuarial Assumptions:	
Inflation	2.75%
Investment Rate of Return/Discount Rate	7.00%
Healthcare Cost Trend	4.00%
Payroll Increase	2.75%
Mortality Rate Table	2014 CalPERS Active Mortality for Miscellaneous Employees
Retirement Rate	Hired < 1/1/2013: 2009 CalPERS 2.5% @ 55 Rates for Misc. Employees Hired > 12/31/2012: 2009 CalPERS 2.0% @ 60 Rates for Misc. Employees adjusted to reflect minimum retirement age of 52
Service Requirement	100% at 5 Years of Service
Medical Costs	Future Retirees Pre-65 \$1,650 Future Retirees Post-65 \$1,650
Participation Rate	< 65 Non-Medicare Participation % at 60% > 65 Medicare Participation % at 60%
Turnover	2009 CalPERS Turnover for Miscellaneous Employees

Discount Rate

The discount rate of 7% was used in the valuation. It was assumed that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. The District used historic 30 year real rates of return for each asset class along with the assumed long-term inflation assumption to set the discount rate. The District offset the expected investment return by investment expenses of 25 basis points. The following is the assumed asset allocation and assumed rate of return:

Asset Class	Percentage of Portfolio	Assumed Gross Return
US Large Cap	43.00%	7.795%
US Small Cap	23.00%	7.795%
Long-Term Corporate Bonds	12.00%	5.295%
Long-Term Government Bonds	6.00%	4.500%
Treasury Inflation Protected Securities (TIPS)	5.00%	7.795%
US Real Estate	8.00%	7.795%
All Commodities	3.00%	7.795%
	100.00%	

The District looked at rolling periods of time for all asset classes in combination to appropriately reflect correlation between asset classes. That means that the average returns for any asset class don’t necessarily reflect the averages over time individually, but reflect the return for the asset class for the portfolio average. The District used geometric means.

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 11 - Other Postemployment Benefits (Continued)

Change in the Net OPEB Liability

	2020		
	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2018 (measurement date)	\$ 265,685	\$ 130,433	\$ 135,252
Changes recognized for the measurement period:			
Service Cost	9,264	-	9,264
Interest on total OPEB liability	18,677	-	18,677
Difference between expected and actual experience	34,535	-	34,535
Difference in benefit payment	116	-	116
Employer contributions	-	14,136	(14,136)
Employee contributions	-	-	-
Actual investment income	-	8,063	(8,063)
Administrative expenses	-	(28)	28
Benefit payments	(7,126)	(7,126)	-
Net change during measurement period 2018-2019	55,466	15,045	40,421
Balance at June 30, 2019 (Measurement Date)	\$ 321,151	\$ 145,478	\$ 175,673

	2019		
	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Rolled back balance at June 30, 2017	\$ 245,539	\$ 115,488	\$ 130,051
Changes recognized for the measurement period:			
Service Cost	9,016	-	9,016
Interest on total OPEB liability	17,288	-	17,288
Employer contributions	-	27,960	(27,960)
Employee contributions	-	-	-
Actual investment income	-	8,919	(8,919)
Administrative expenses	-	(193)	193
Benefit payments	(6,158)	(6,158)	-
Other	-	(15,583)	15,583
Net change during measurement period 2017-2018	20,146	14,945	5,201
Balance at June 30, 2018 (Measurement Date)	\$ 265,685	\$ 130,433	\$ 135,252

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current discount rate:

Measurement Date	Net OPEB Liability		
	Discount Rate	Current Discount	Discount Rate
	- 1% (6.00%)	Rate (7.00%)	+ 1% (8.00%)
June 30, 2019	\$ 222,163	\$ 175,673	\$ 137,581
June 30, 2018	175,099	135,252	102,812

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 11 - Other Postemployment Benefits (Continued)

Change in the Net OPEB Liability (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that is 1-percentage-point lower (4.0 percent decreasing to 3.0 percent) or 1-percentage-point higher (4.0 percent increasing to 5.0 percent) than the current healthcare cost trend rates:

Measurement Date	Net OPEB Liability		
	Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	Healthcare Cost Trend Rate
	- 1% (3.00%)	Rate (4.00%)	+ 1% (5.00%)
June 30, 2019	\$ 136,740	\$ 175,673	\$ 221,697
June 30, 2018	79,760	135,252	206,373

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2020 and 2019, the District recognized OPEB expense in the amounts of \$21,447 and \$32,863, respectively. At June 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
OPEB contribution after measurement date	9,900	\$ -	14,136	\$ -
Changes of assumptions	32,045	-	-	-
Difference between expected and actual experience	1,002	-	-	-
Projected earnings on pension plan investments under/(in excess of) actual earnings	-	-	-	(63)
Total	\$ 42,947	\$ -	\$ 14,136	\$ (63)

Deferred outflows of resources related to OPEB resulting from District's contributions subsequent to the measurement date in the amounts of \$9,900 and \$14,136 will be recognized as a reduction of the net OPEB liability in the years ended June 30, 2021 and 2020, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Deferred Outflows/ (Inflows) of Resources	Year Ending June 30,	Deferred Outflows/ (Inflows) of Resources
	2020		2019
2021	\$ 2,853	2020	\$ (16)
2022	2,853	2021	(16)
2023	2,854	2022	(16)
2024	2,866	2023	(15)
2025	2,606	2024	-
Thereafter	19,015	Thereafter	-
	\$ 33,047		\$ (63)

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 12 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Premiums are paid annually by the District. For the years ended June 30, 2020 and 2019, the District had insurance expenses in the amounts of \$289,120 and \$293,286 in premium payments, respectively.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2020 and 2019, there were no liabilities to be reported. During the past three fiscal years there have been no settlements or judgments that exceeded insured coverage. There have been no significant reductions in insured liability coverage from coverage in the prior year.

Note 13 – Commitments and Contingencies

Indio Terrace Assessment District No. 2

In 1965, the District received proceeds from the sale of bonds from Indio Terrace Assessment District No. 2. Under the covenants of this assessment district, as parcels within Indio Terrace are developed and connected to the District's system, the Valley Sanitary District is required to give credits toward connection fees that are paid by the individual developers. As of June 30, 2020 and 2019, the total amount of unused credits were both in the amount of \$41,595. Estimated future revenue from connection fees based upon the current fee in effect is approximately \$162,000. Since no development occurred in the Indio Terrace Assessment District during the year, no connection fee income was reduced by these credits for both years ended June 30, 2020 and 2019.

Shadow Hills Assessment District

In September 1994, the District authorized oversize credits of \$343,403 against capital impact fees for developments occurring within Assessment District 90-1 that are benefiting from the sewer trunk line improvements installed in 1993. As of June 30, 2020 and 2019, credits of \$204,341 have been applied, leaving a balance of \$139,062 to be issued.

Pending Legal Actions

The District has not been named in any lawsuit. However, there could be pending litigation. While the outcome of these lawsuits is not presently determinable, in the opinion of management of the District, based in part on the advice of counsel, the resolution of these matters is not expected to have a material adverse effect on the financial position or results of operations of the District, or is adequately covered by insurance.

Construction Commitments

Outstanding construction commitments as of June 30, 2020:

	2020 Commitments
Projects:	
Sewer Main Rehabilitation or Replacement Design	\$ 451,900
Sewer Main Rehabilitation or Replacement Construction	529,510
Reclaim Water Project Phase I	2,200,000
	\$ 3,181,410

Valley Sanitary District
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

Note 13 – Commitments and Contingencies (Continued)

Construction Commitments (Continued)

Outstanding construction commitments as of June 30, 2019:

	2019
	<u>Commitments</u>
Projects:	
Sewer Siphon Replacement Design	\$ 400,000
Collection System Design and Program Management	<u>101,000</u>
	<u>\$ 501,000</u>

Draft 10.16.2020

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

Draft 10/16/2020

Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios
For the Years Ended June 30, 2020 and 2019

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

Measurement date	June 30, 2014 ¹	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018
District's proportion of the net pension liability	0.02185%	0.02397%	0.02461%	0.02573%	0.02584%
District's proportionate share of the net pension liability	\$ 1,359,412	\$ 1,645,582	\$ 2,129,724	\$ 2,551,281	\$ 2,490,030
District's covered payroll	\$ 1,805,145	\$ 1,980,191	\$ 2,004,667	\$ 2,279,280	\$ 2,059,259
District's proportionate share of the net pension liability as a percentage of covered payroll	75.31%	83.10%	106.24%	111.93%	120.92%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	83.77%	81.08%	77.15%	77.13%	79.13%

¹ Historical information is presented only for measurement periods for which GASB 68 is available for periods after GASB 68 implementation in 2013-14.

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Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios (Continued)
For the Years Ended June 30, 2020 and 2019

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

	June 30, 2019
Measurement date	
District's proportion of the net pension liability	0.02706%
District's proportionate share of the net pension liability	\$ 2,772,698
District's covered payroll	\$ 2,362,608
District's proportionate share of the net pension liability as a percentage of covered payroll	117.36%
Plan's proportionate share of the fiduciary net position as a percentage of the total pension liability	78.86%

¹ Historical information is presented only for measurement periods for which GASB 68 is available for periods after GASB 68 implementation in 2013-14.

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Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pension
For the Years Ended June 30, 2020 and 2019

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

Fiscal year end	2013-14 ¹	2014-15	2015-16	2016-17	2017-18
Actuarially determined contribution ²	\$ 340,629	\$ 279,922	\$ 203,392	\$ 303,301	\$ 323,626
Contribution in relation to the actuarially determined contribution ²	(1,126,986)	(279,922)	(203,392)	(303,301)	(323,626)
Contribution deficiency/(excess)	\$ (786,357)	\$ -	\$ -	\$ -	\$ -
District's covered payroll ³	\$ 1,805,145	\$ 1,980,191	\$ 2,004,667	\$ 2,279,280	\$ 2,059,259
Contributions as a percentage of covered payroll	62.43%	14.14%	10.15%	13.31%	15.72%

¹ Historical information is presented only for measurement periods for which GASB No. 68 is available for periods after GASB 68 implementation in 2013-14. Additional years of information will be displayed as it becomes available.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

Notes to Schedule:

Change in Benefit Terms: There were no changes to benefit terms.

Changes of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pension (Continued)
For the Years Ended June 30, 2020 and 2019

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") Miscellaneous Plan

Fiscal year end	2018-19	2019-20
Actuarially determined contribution ²	\$ 814,982	\$ 716,153
Contribution in relation to the actuarially determined contribution ²	(814,982)	(716,153)
Contribution deficiency/(excess)	\$ -	\$ -
District's covered payroll ³	\$ 2,362,608	\$ 2,427,580
Contributions as a percentage of covered payroll	34.50%	29.50%

¹ Historical information is presented only for measurement periods for which GASB 68 is available for periods after GASB 68 implementation in 2013-14.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Payroll from prior year (2019-20) was assumed to increase by the 2.75 percent payroll growth assumption.

Notes to Schedule:

Change in Benefit Terms: There were no changes to benefit terms.

Changes of Assumptions: In 2019, there were no changes. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

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Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of Changes in Net Other Postemployment Liability and Related Ratios
For the Years Ended June 30, 2020 and 2019

Last Ten Fiscal Years

Other Postemployment Benefits ("OPEB")

Measurement period	June 30, 2017 ¹	June 30, 2018	June 30, 2019
Total OPEB liability			
Service cost	\$ 8,775	\$ 9,016	\$ 9,264
Interest	15,962	17,288	18,677
Difference in benefit terms	-	-	116
Differences between expected and actual experience	-	-	34,535
Changes of assumption	-	-	-
Benefit payments	(5,921)	(6,158)	(7,126)
Net change in total OPEB liability	18,816	20,146	55,466
Total OPEB liability, beginning	226,723	245,539	265,685
Total OPEB liability, ending (a)	245,539	265,685	321,151
OPEB fiduciary net position			
Contributions - employer	21,565	27,960	14,136
Net investment income	9,580	8,919	8,063
Benefit payments	(5,921)	(6,158)	(7,126)
Administrative expense	(80)	(193)	(28)
Other	-	(15,583)	-
Net change in plan fiduciary net position	25,144	14,945	15,045
Plan fiduciary net position, beginning	90,344	115,488	130,433
Plan fiduciary net position, ending (b)	115,488	130,433	145,478
Plan net OPEB liability - ending (a) - (b)	\$ 130,051	\$ 135,252	\$ 175,673
Plan's fiduciary net position as a percentage of the total OPEB liability	47.03%	49.09%	45.30%
Covered payroll	\$ 2,279,280	\$ 2,059,259	\$ 2,362,608
Plan net OPEB liability as a percentage of covered payroll	5.71%	6.57%	7.44%

¹ Historical information is presented only for measurement periods for which GASB 75 is available for periods after GASB 75 implementation in 2016-17.

Valley Sanitary District
Required Supplementary Information (Unaudited)
Schedule of Contributions - Other Postemployment Benefits
For the Years Ended June 30, 2020 and 2019

Last Ten Fiscal Years

Other Postemployment Benefits ("OPEB")

Fiscal year end	2016-17 ¹	2017-18	2018-19	2019-20
Actuarially determined contribution ²	\$ 15,225	\$ -	\$ -	\$ -
Contribution in relation to the actuarially determined contribution ²	<u>(21,565)</u>	<u>(27,599)</u>	<u>(14,136)</u>	<u>(9,900)</u>
Contribution deficiency/(excess)	<u>\$ (6,340)</u>	<u>\$ (27,599)</u>	<u>\$ (14,136)</u>	<u>\$ (9,900)</u>
Covered payroll	<u>\$ 2,279,280</u>	<u>\$ 2,059,259</u>	<u>\$ 2,362,608</u>	<u>\$ 2,427,580</u>
Contributions as a percentage of covered payroll	<u>0.95%</u>	<u>1.34%</u>	<u>0.60%</u>	<u>0.41%</u>

¹ Historical information is presented only for measurement periods for which GASB 75 is available for periods after GASB 75 implementation in 2016-17.

² The June 30, 2015 actuarial valuation provided the actuarially determined contributions for fiscal year ended June 30, 2017. There is no actuarially determined contribution for the years ended June 30, 2018, 2019 and 2020.

Notes to Schedule:

Valuation date:	June 30, 2019
Methods and assumptions used to determine contribution rates:	
Actuarial cost method:	Entry age actuarial cost method.
Inflation:	2.75% per year
Investment return/discount rate:	7.00% per year based on assumed long-term return on plan assets assuming 100% funding through CERBT. "Building Block Method" is used.
Healthcare cost trend:	4.00% per year
Payroll increase:	2.75% per year
Mortality:	2014 CalPERS active mortality for miscellaneous employees
Retirement rates:	Hired < 1/1/2013: 2009 CalPERS 2.5% @55 rates for miscellaneous employee Hired > 12/31/12: 2009 CalPERS 2.0% @62 rate for miscellaneous employees adjusted to reflect minimum retirement age of 52

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SUPPLEMENTARY INFORMATION

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Valley Sanitary District
Schedule of Operating Expenses
For the Year Ended June 30, 2020

	<u>General and Administrative</u>	<u>Sewage Collection</u>	<u>Sewage Treatment</u>	<u>Total</u>
Salaries and wages	\$ 637,574	\$ 1,319,663	\$ 854,090	\$ 2,811,327
Employee benefits	368,370	754,024	468,180	1,590,574
Directors' fees	49,750	-	-	49,750
Insurance	289,120	-	-	289,120
Memberships	47,680	4,415	3,112	55,207
Office expense	13,887	-	-	13,887
Permits	3,049	15,516	61,912	80,477
Operating supplies	8,475	37,693	81,778	127,946
Professional services	3,300	-	-	3,300
Repairs and maintenance	4,397	423,408	56,967	484,772
Travel and seminars	59,725	22,859	21,501	104,085
Utilities and telephone	19,297	9,507	604,586	633,390
Chemicals	-	1,268	385,206	386,474
Clothing	-	13,061	9,368	22,429
Certifications	50	3,858	758	4,666
Gas, oil, and fuel	-	-	29,179	29,179
County charges	16,611	-	-	16,611
Contractual services	659,717	260,178	209,933	1,129,828
Publication/legal notices	3,717	-	-	3,717
Small tools	55,941	24,647	236	80,824
Other expenses	29,412	13,028	5,677	48,117
Total	<u>\$ 2,270,072</u>	<u>\$ 2,903,125</u>	<u>\$ 2,792,483</u>	<u>\$ 7,965,680</u>

Note: The Schedule of Operating Expenses excludes depreciation expense.

Valley Sanitary District
Schedule of Operating Expenses
For the Year Ended June 30, 2019

	<u>General and Administrative</u>	<u>Sewage Collection</u>	<u>Sewage Treatment</u>	<u>Total</u>
Salaries and wages	\$ 533,508	\$ 1,257,468	\$ 777,369	\$ 2,568,345
Employee benefits	241,868	593,243	374,987	1,210,098
Directors' fees	40,500	-	-	40,500
Insurance	293,286	-	-	293,286
Memberships	24,979	3,491	1,633	30,103
Office expense	20,439	-	-	20,439
Permits	8,358	12,269	53,130	73,757
Operating supplies	5,224	25,233	91,901	122,358
Professional services	3,400	-	-	3,400
Repairs and maintenance	1,607	461,053	59,672	522,332
Travel and seminars	25,284	9,307	4,172	38,763
Utilities and telephone	16,989	9,685	530,348	557,022
Chemicals	-	-	321,488	321,488
Clothing	-	20,595	12,000	32,595
Certifications	120	1,867	1,647	3,634
Gas, oil, and fuel	-	-	33,621	33,621
County charges	18,608	-	-	18,608
Contractual services	511,738	950,497	95,944	1,558,179
Publication/legal notices	1,633	-	-	1,633
Small tools	37,752	13,539	1,485	52,776
Other expenses	19,318	8,807	2,284	30,409
Total	<u>\$ 1,804,611</u>	<u>\$ 3,367,054</u>	<u>\$ 2,361,681</u>	<u>\$ 7,533,346</u>

Note: The Schedule of Operating Expenses excludes depreciation expense

Valley Sanitary District
Schedules of Changes in Fiduciary Assets and Liabilities - Agency Fund
For the Years Ended June 30, 2020 and 2019

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
ASSETS				
Cash and investments	\$ 666,784	\$ 651,962	\$ (627,626)	\$ 691,120
Cash with fiscal agent	623,134	7,848	(1,848)	629,134
Assessment receivable	15,129	625,847	(632,145)	8,831
Interest receivable	4,042	6,443	(8,084)	2,401
Total assets	\$ 1,309,089	\$ 1,292,100	\$ (1,269,703)	\$ 1,331,486
LIABILITIES				
Due to bondholders	\$ 1,309,089	\$ 1,292,100	\$ (1,269,703)	\$ 1,331,486
Total liabilities	\$ 1,309,089	\$ 1,292,100	\$ (1,269,703)	\$ 1,331,486

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
ASSETS				
Cash and investments	\$ 631,153	\$ 654,420	\$ (618,789)	\$ 666,784
Cash with fiscal agent	624,042	12,523	(13,431)	623,134
Assessment receivable	18,596	627,252	(630,719)	15,129
Interest receivable	2,699	8,084	(6,741)	4,042
Total assets	\$ 1,276,490	\$ 1,302,279	\$ (1,269,680)	\$ 1,309,089
LIABILITIES				
Due to bondholders	\$ 1,276,490	\$ 1,302,279	\$ (1,269,680)	\$ 1,309,089
Total liabilities	\$ 1,276,490	\$ 1,302,279	\$ (1,269,680)	\$ 1,309,089

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**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***

Independent Auditors' Report

To the Board of Directors
of the Valley Sanitary District
Indio, 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 business-type activities and fiduciary fund of the Valley Sanitary District, California (the "District"), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated **NEED DATE, 2020**.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

To the Board of Directors
of the Valley Sanitary District
Indio, California
Page 2

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 District'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.

Santa Ana, California
NEED DATE, 2020

Draft 10.16.2020



**Valley Sanitary District
Budget & Finance Committee
November 3, 2020**

TO: Budget & Finance Committee
FROM: Jeanette Juarez, Business Services Manager
SUBJECT: Sewer Rate Study Update

<input type="checkbox"/> Board Action	<input type="checkbox"/> New Budget Approval	<input type="checkbox"/> Contract Award
<input checked="" type="checkbox"/> Board Information	<input type="checkbox"/> Existing FY Approved Budget	<input type="checkbox"/> Closed Session

Executive Summary

The purpose of this report is to update the Budget & Finance Committee on the progress of the Sewer Rate Study.

Strategic Plan Compliance

This item complies with VSD Strategic Plan Objective 5.3: Update rate structure to ensure it is up-to-date and fair to all classes of customers.

Fiscal Impact

There is no fiscal impact from this report.

Background

At the August 25, 2020 Board Meeting, the Board authorized the General Manager to execute a contract with NBS to perform a Sewer Rate Study and provide assistance with the public hearing process.

The General Manager and the senior management team met with NBS via zoom on October 1, 2020 to meet the project team, discuss goals, objectives, deliverables, and answer clarifying questions. NBS provided a list of project data requests. The requested information entails financial data, customer billing data, system operations, design, and planning information. All departments have been actively providing the requested information.

Recommendation

Staff recommends that the Budget & Finance Committee receive the staffs Sewer Rate Study Update.

Attachments

None.



**Valley Sanitary District
Budget & Finance Committee
November 3, 2020**

TO: Budget & Finance Committee
FROM: Beverli A. Marshall, General Manager
SUBJECT: Discussion of COLA Increase for Employees

<input type="checkbox"/> Board Action	<input type="checkbox"/> New Budget Approval	<input type="checkbox"/> Contract Award
<input checked="" type="checkbox"/> Board Information	<input type="checkbox"/> Existing FY Approved Budget	<input type="checkbox"/> Closed Session

Executive Summary

The purpose of this report is to open the discussion to reevaluate COLA contribution for employees.

Strategic Plan Compliance

This item complies with VSD Strategic Plan Objective 1.1: Fully Staff with a Highly Trained and Motivated Team.

Fiscal Impact

There is no fiscal impact from this report.

Background

At the May 26, 2020 Board meeting it was determined that a COLA of 1% would be effective July 1, 2020 for employees. A reevaluation would be considered later in the fiscal year.

Recommendation

Staff recommends that the Budget & Finance Committee move forward to bring this item to the full Board for discussion.

Attachments

None.



**Valley Sanitary District
Budget & Finance Committee
November 3, 2020**

TO: Budget & Finance Committee
FROM: Jeanette Juarez, Business Services Manager
SUBJECT: Discussion of Draft Request for Proposal (RFP) Auditing Services

<input type="checkbox"/> Board Action	<input type="checkbox"/> New Budget Approval	<input type="checkbox"/> Contract Award
<input checked="" type="checkbox"/> Board Information	<input type="checkbox"/> Existing FY Approved Budget	<input type="checkbox"/> Closed Session

Executive Summary

The purpose of this report is to bring the draft RFP for Auditing Services for discussion to the Budget & Finance Committee.

Strategic Plan Compliance

This item complies with VSD Strategic Plan Objective 5.1: Align long-term financial planning with strategic priorities.

Fiscal Impact

There is no fiscal impact from this report.

Background

Valley Sanitary District is inviting RFP responses from highly qualified and experienced independent certified public accounting firms with proven records of accomplishments for a three-year agreement to perform the annual audit of the District’s financial statements.

Recommendation

Staff recommends that the Budget & Finance Committee review the draft RFP and provide comments and feedback.

Attachments

Attachment A: Draft RFP Auditing Services



REQUEST FOR PROPOSALS (RFP)

AUDIT SERVICES

Release Date: November 10, 2020

Deadline for Submission: December 1, 2020

Contact Person: Jeanette Juarez, Business Services Manager

**VSD
45-500 Van Buren St
Indio, CA 92201**

REQUEST FOR PROPOSALS (RFP)
Audit Services

RELEASE DATE: Tuesday, November 10, 2020

CLOSING DATE: Proposals must be received no later than Tuesday, December 1, 2020 by 3:00 p.m. by the means listed in the RFP.

CONTACT PERSON: Jeanette Juarez, Business Services Manager
E-mail: jj Suarez@valley-sanitary.org
Phone: 760-238-5400

Valley Sanitary District
45-500 Van Buren St
Indio, CA 92201

Counter Hours: M-F 8:00 AM – 5:00 PM

PURPOSE

Valley Sanitary District (District) is inviting request for proposal (“RFP”) responses from highly qualified and experienced independent certified public accounting firms with proven records of accomplishments for a three-year agreement to perform the annual audit of the District’s financial statements. This audit is for the purpose of rendering an auditors’ opinion regarding applicable legal provisions and to perform an audit in conformity with auditing standards generally accepted in the United States of America, the standards set forth for financial audits contained in Government Auditing Standards (1994) issued by the Comptroller General of the United States, and the U.S. Office of Management and Budget (OMB) Circular A-133 Audits of State and Local Governments and Non-Profit Organizations. The first year of the audit agreement would be for the fiscal year ending June 30, 2021.

Please read this entire RFP package, and include all requested information and forms in your proposal. Proposals must be signed by an authorized agent of the company submitting the proposal to be considered responsive.

ABOUT THE DISTRICT

The District is in the Coachella Valley about 20 miles southwest of the Palm Springs airport. The District is a wastewater district, founded in 1925, operating under the Sanitary District Act of 1923. The District has over 28,000 service connections in a 19.5 square mile service area serving a population of about 75,000 in the communities of Indio, Coachella, La Quinta, and unincorporated Riverside County. The District’s Adopted FY 2019/20 Operating Budget is \$8.3 million.

The District is governed by a five-member Board of Directors and led by a senior management

team comprised of a General Manager, Engineering Services Manager, Facility Operations Manager, and Business Services Manager. Staff includes a total of 32 full-time employees spread across three Departments: Administrative Services Department, Operations & Maintenance Department, and the Engineering Department.

Keeping infrastructure up to date and reliable is a significant part of the District's commitment to provide quality service to its customers. Capital improvement and replacement projects are necessary to replace aging underground infrastructure and to ensure that the District offers superior treatment to meet environmental standards.

TERM OF AGREEMENT

The agreement is estimated to begin on February 9, 2021. The terms of the agreement for services will be negotiated with the selected proposer. The District expects a minimum term of one year with two option years at its sole discretion. The contract will be monitored for acceptable services rendered throughout the contract term. The District will have the option to cancel the contract in whole or in part during the contract term, for any reason, without penalty, upon notice. The Proposer will not be entitled to lost profits or any further compensation not earned prior to the time of cancellation.

PAYMENTS

For payment due for Basic and Enhanced Services the Proposer shall submit invoices at the end of each monthly billing period. Invoice amounts shall be based on the Proposer's services as rendered in a format acceptable to the District.

The Proposer shall submit an invoice which provides detailed billing for services provided no later than 45 calendar days after the date the services have been rendered. Payments shall be paid to the Proposer within 30 days upon the receipt of invoice.

RFP RESPONSE FORMAT

The RFP respondent shall submit one PDF Electronic copy of the RFP response with all the information requested. In order to simplify the proposal evaluation process, the District is seeking RFP responses in the following format:

1. Cover/Cover Letter

- Name of Business/Company
- Business/Company Address
- Telephone Number(s)
- E-mail Address
- Website Address
- Name, title, telephone number and, if different, address of person(s) authorized to represent business entity
- Name, title, telephone number and, if different, address of person(s) authorized to sign contracts for the business entity

2. RFP Response

A. Information about the consulting firm including the following information.

- organization type (corp, llc, etc)
- organizational structure(s)
- location of principal office(s)
- years in business
- number of employees
- Federal Tax ID Number
- other pertinent information

B. Key personnel and roles

- Name of the principal point-of-contact in the firm/entity that will have direct and continued responsibility for the services provided to the District. This person will be the District staff's first point-of-contact on all matters at the contract administration level dealing with the services offered, and will either handle day-to-day activities or assign a point-of-contact and other firm staff as needed for that responsibility.
- The firm shall also provide information on the results of any federal or state desk reviews or field reviews of its audits during the past three (3) years. In addition, the firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm during the past three (3) years with state regulatory bodies or professional organizations.
- Outline of responsibilities/roles of firm/entity personnel with respect to providing the services requested.
- Experience/resumes of assigned personnel including certifications.
- Location of resources assigned to project and availability for on-site work activities.

C. Partner, Supervisory, and Staff Qualifications and Experience

- Identify the principal supervisory and management staff, including engagement partner, managers, other supervisors, and specialists who would be assigned to the engagement. Indicate whether each person is an active licensed certified public accountant in California. Provide information on the government auditing experience of each person, including information on relevant continuing professional education for the past three (3) years and membership in professional organizations relevant to the performance of this audit. Indicate how the quality of staff over the term of the agreement will be assured. In addition, please discuss your transition plan to remain in compliance with California Government Code Section 12410.6 requiring partner rotations after 6 years.

- This section may include graphs, charts, photos, resumes, references, etc. in support of the firm's qualifications.
- D. Similar Engagements with other Government Entities
- Please provide a list of not less than five (5) client references for which services similar to those outlined in the RFP are currently being provided. Also please indicate the first fiscal year that an audit was performed for each client. For each reference listed provide the name of the organization, dates for which the services(s) are being provided, type of services(s) being provided and the name, address, telephone and email address of the responsible person within the reference's organization. The District reserves the right to contact any or all of the listed references regarding the audit services performed by the Proposer.
- E. Specific Audit Approach
- The audit approach should indicate the firm's ability to meet each specification as outlined in this document, the plan for transition to a new auditor, and how much assistance the firm requires from District's internal financial personnel. The work plan should address the items of work as described in this RFP. The plan should be simple, easy to read and follow, and addresses and satisfies the objectives and specifications as listed in the Scope of Work in this RFP.
- F. Cost Proposal
- The proposal should contain all pricing information relative to performing the audit engagement as described in this request for proposal. The total all-inclusive maximum price to be proposed is to contain all direct and indirect costs including all out-of-pocket expenses for each of the three years. This information is required to be shown for each year to be audited and in total. The District will not be responsible for expenses incurred in preparing and submitting the proposal.
 - No cost increases shall be passed onto the District after the proposal has been submitted.
- G. Conflict of Interest Statement
- Documentation that personal or organizational conflicts of interest prohibited by law do not exist.
- H. External Quality Control Review Report
- The firm is also required to submit a copy of its most recent External Quality Control Review Report, with a statement whether that quality control review included a review of specific government engagements.
- I. Insurance
- The successful Consultant is required to show evidence of insurance coverage in accordance with Section VII of this RFP, Professional Service Agreement (Section 3.2.10) after award of contract, and to maintain the insurance for the entire term of

the Agreement.

J. Public Records

- Responses (proposals) to this RFP and the documents constituting any contract entered into thereafter become the exclusive property of the District and shall be subject to the California Public Records Act (Government Code Section 6250 et seq.). The District's use and disclosure of its records are governed by this Act.
- Those elements in each proposal which proposer considers to be trade secrets, as that term is defined in Civil Code Section 3426.1(d), or otherwise exempt by law from disclosure, should be prominently marked as "TRADE SECRET," "CONFIDENTIAL," or "PROPRIETARY" by proposer. The District will use its best efforts to inform proposer of any request for disclosure of any such document. The District, shall not in any way, be liable or responsible for the disclosure of any such records including, without limitation; those so marked if disclosure is deemed to be required by law or by an order of the Court.
- To ensure confidentiality, proposers are instructed to label all "Confidential," "Proprietary," or "Trade Secret" data in separate documents leading with CONFIDENTIAL in the title, which are then included with the proposal documents. Because the proposal documents are available for review by any person after award of a contract resulting from an RFP, the District shall not in any way be held responsible for disclosure of any "Confidential," "Proprietary," or "Trade Secret" documents that are not prominently marked "Confidential."
- In the event of litigation concerning disclosure of information the proposer considers exempt from disclosure, the District will act as a stakeholder only, holding the information until otherwise ordered by a court or other legal process. If the District is required to defend an action arising out of a Public Records Act request for any of the contents of a proposer's proposal marked "Confidential," "Proprietary," or "Trade Secret," proposer shall defend and indemnify the District from all liability, damages, costs, and expense, including attorneys' fees, in any action or proceeding arising under the Public Records Act.

GENERAL TERMS AND CONDITIONS

1. Consultant Questions during Proposal Process: Proposing firms are encouraged to ask questions to strengthen proposals to the District. Please direct your questions to: Jeanette Juarez at jj Suarez@valley-sanitary.org. Please provide all inquiries in writing (e-mail). Questions will be accepted up to 3:00 pm Pacific Time on Tuesday, November 17, 2020. All questions and answers will be e-mailed to all firms who indicate their intention to respond to the RFP. Please email your intention to respond to Jeanette Juarez. You will receive confirmation of receipt of your email. Question sources will remain anonymous.
2. Limitation: The Request for Proposals (RFP) does not commit the District to award a contract, to pay any cost incurred in the preparation of the firm's RFP response or to

procure or contract for services or supplies. The District reserves the right to accept or reject any or all RFP responses received as a result of this request, to negotiate with any/all qualified sources or to cancel all or part of this RFP.

3. **Award:** The firm/entity chosen may be required to participate in negotiations and to submit such revisions of its proposals as may result from negotiations. The District reserves the right to award a contract/select a service provider without discussion based upon the initial proposals.
4. **Signature:** The consultant's RFP response shall provide the following information: name, title, address and telephone number of individuals with authority to bind the service provider and who may be contacted during the period of proposal evaluation. The consultant's RFP response shall be signed by an official authorized to bind the consultant.

PROPOSAL SUBMISSION

One PDF electronic copy of the proposal must be received no later than **3:00 p.m. on Tuesday, December 1, 2020**, by one of the following two methods. Late proposals will not be accepted.

1. Delivered to Valley Sanitary District Administrative Office
or
2. Emailed to jjuarez@valley-sanitary.org

SELECTION CRITERIA

In reviewing proposals, the District's proposal reviewers will use a standardized selection:

- Experience and qualifications of assigned staff **(10 points)**
- References (particularly public agencies) and relevant work performed **(20 points)**
- Firm/entity key personnel assigned to the project **(10points)**
- Demonstrated ability to competently implement the scope of services **(25 points)**
- Demonstrated understanding of issues raised by District in RFP and completeness in addressing the scope of work **(30 points)**
- Cost for services **(5 points)**

A review panel will rate the initial proposals based upon standardized selection criteria and may select up to 3 of the highest scoring firms to attend interviews (see selection process and time frame below). All other firms will be notified according to the schedule provided below.

SELECTION PROCESS AND TIME FRAME

Tuesday, November 10, 2020

Release date of RFP

Tuesday November 17, 2020	Written questions from consultant's due no later than 3:00 PM PDT (optional)
Tuesday November 24, 2020	Responses from the District
Tuesday December 1, 2020	RFP responses due no later than 3:00 PM PDT
Tuesday December 22, 2020	RFP Evaluation Completed
Tuesday January 5, 2021	Recommendation to the District's Budget & Finance Committee for Award
Tuesday January 12, 2021	Recommendation to Board of Directors for Award
Tuesday February 9, 2021	Services begin

Exhibit A Scope of Services

1. The audit shall be in compliance with Section 26909 of the Governmental Code and the related State Controller Guidelines.
2. The District desires the independent auditor to express an opinion on the fair presentation of its general-purpose financial statements in conformity with GAAP.

The audit shall be a full scope financial and compliance review of all funds and

account groups of the District. The auditor shall issue an opinion letter on the District's financial statements, in compliance with applicable legal provisions, the auditors' report on the study and evaluation of internal control system and the auditors' report on compliance.

3. The auditor shall provide guidance and technical assistance in completing the Comprehensive Annual Financial Report ("CAFR"), including the Management Discussion and Analysis ("MD&A"), to adhere to the standards required by GASB Statement No. 34.
4. If necessary, the auditor shall assist the District in preparing and filing all related reports required by state and federal agencies, including the State Controller's Report.
5. The audits performed under the Request for Proposal shall cover the following periods:
Proposer is to describe how the services will be performed. The plan should include the number of personnel to execute the services and estimated time to complete each service.
 - i. July 1, 2020 – June 30, 2021 (Year 1)
 - ii. July 1, 2021 – June 30, 2022 (Year 2)
 - iii. July 1, 2022 – June 30, 2023 (Year 3)

6. The District will provide the auditor with trial balance and general ledger data. The District expects to prepare the financial statements, footnotes and supplementary information in-house; however, the District would like a separate quote from the Proposer for the cost of performing these services.
7. The auditor must provide the District with copies of any journal entries and explanations to support the changes to the trial balance. Any results prepared by the auditor which alter the District's financial statements must be reviewed and approved by the District's personnel.
8. Final copies of the financial statements, including the opinion letter, footnotes, and supplemental information, must be available for review at a Budget & Finance Committee meeting and Board of Directors meeting. The audit firm must be available to present the final audit reports to both the Budget & Finance Committee and the Board of Directors. The Budget & Finance Committee generally meets the first Tuesday of January, March, May, July, September, and November. The Board of Directors generally meet the second and fourth Tuesday of every month.
9. The auditor, if applicable, shall submit a written letter on internal controls to the Board of Directors that communicates any observations for improvements in the District's financial operations as a result of significant deficiencies or material weaknesses in internal controls that need to be addressed by the District.
10. The partners(s) in charge shall be available to attend up to at least six (6) District meetings, of which at least three (3) are public meetings, for each fiscal year period authorized in the contract at which the audit report may be discussed.
11. The auditor shall assist the District's personnel in applying GAAP and implementing new GASB pronouncements and provide support necessary to maintain sound financial management procedures. The auditor shall provide financial advice and counsel on significant matters occurring throughout the year that would affect the annual reports and sound accounting practices.
12. The District's finance personnel will assist the auditor in preparing all required schedules for the annual audit, assist in locating information, and answer questions as they arise. The District will provide workspace for the auditor personnel.
13. The auditor will provide a minimum of four (4) hours of continuing professional education (CPE) annually to the District via webinar, live learning, or other acceptable method.
14. The auditor will perform a review of the June 30, 2021 issued financial statements prior to the end of interim fieldwork and provide recommendations to the District.

Respectfully submitted,

Print Name: _____

Print Title: _____

Signature: _____

Date: _____

DRAFT