

**WOODLAND-DAVIS CLEAN WATER AGENCY  
DAVIS, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2020**

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WOODLAND-DAVIS CLEAN WATER AGENCY  
DAVIS, CALIFORNIA  
BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2020

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Members of the Board of Directors  
of the Woodland-Davis Clean Water Agency  
City of Davis, California

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the business-type activities of the Woodland-Davis Clean Water Agency (the Agency), California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Agency'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 the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Agency'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 Agency'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 financial position of the business-type activities of the Agency as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Maze & Associates*

Pleasant Hill, California  
October 18, 2022

## **WOODLAND-DAVIS CLEAN WATER AGENCY Management's Discussion and Analysis**

The management of the Woodland-Davis Clean Water Agency (Agency) is pleased to present the following discussion and analysis that provides an overview of the activities and financial position of the Agency, for the fiscal year ending June 30, 2020. This discussion should be reviewed in conjunction with financial statements and accompanying notes that comprise the Agency's financial statements presented herein.

### **BACKGROUND**

The Woodland-Davis Clean Water Agency is a Joint Powers Authority established in 2009 by the cities of Woodland and Davis to develop and implement a regional surface water project to serve the water customers of both communities. The regional project will replace deteriorating groundwater supplies with safe, more reliable surface water supplies from the Sacramento River. Once complete, the project will serve more than two-thirds of the urban population of Yolo County, CA. It will also serve University of California Davis (UC Davis), a project partner. The primary goals of the surface water project include:

- Provide a new water supply to help meet existing and future needs
- Improve drinking water quality
- Improve the quality of treated wastewater

### **Project Detail**

Project includes a jointly-owned and operated intake on the Sacramento River (the Agency in partnership with Reclamation District 2035), raw water pipelines connecting the intake to a regional water treatment plant, and separate pipelines delivering treated water to the cities of Woodland and Davis and the campus of UC Davis.

The project has the capacity to supply up to 45,000 acre-feet of water per year from the Sacramento River. Water rights were granted in March 2011 and are subject to conditions imposed by the state. Water diversions will be limited during summer and other dry periods. A more senior water right for 10,000 acre-feet was purchased from the Conaway Preservation Group to supplement summer water supply.

The water treatment facility has the capacity to supply up to 30 million gallons of water per day, with an option for future expansion to 34 million gallons per day. Of that amount, Woodland's share of treated surface water capacity is 18 million gallons per day, with Davis' share being 12 million gallons per day, inclusive of 1.8 million gallons per day available to the UC Davis campus. Approximately 5.1 miles of pipeline transport "raw" water from the surface water intake on the Sacramento River to the water treatment plant located south of Woodland. From there, the treated water is conveyed via pipeline 7.8 miles to Davis, and up to 1.4 miles to Woodland.

With the completion and acceptance of all project capital facilities in 2016, the Agency's focus has transitioned to overseeing operations and maintenance of facilities, management of water supply and deliveries pursuant to applicable water rights and delivery contracts, and servicing long-term debt obligations.

### **Project Cost and Financing**

The development and construction of the Project was completed within the budget of \$204.5 million, exclusive of \$67.0 million for local facilities constructed and funded directly by the cities of Woodland and Davis. UC Davis funded an additional \$7.7 million for campus-serving facilities. The bulk of the project was financed through a combined \$206.8 million in low-interest State Revolving Fund loans secured by the cities of Davis and Woodland, to be re-paid through water rate revenues collected from water customers.

## FINANCIAL HIGHLIGHTS

- The Agency's net position – the level by which total assets exceeds total liabilities - increased over the course of the fiscal year by \$2.1 million, from \$17.3 million as of June 30, 2019 to \$19.4 million as of June 30, 2020.
- The total net position of \$19.4 million as of June 30, 2020 results from \$239.3 million of total assets and \$220.0 million in total liabilities.
- Capital assets held by the Agency decreased from \$189.6 million as of June 30, 2019 to \$184.0 million as of June 30, 2020.

## THE FINANCIAL STATEMENTS

The Agency's comprehensive annual financial report consists of management's discussion and analysis, summary of net position, statement of revenues, expenses and changes in net position and statement of cash flows. This information conforms to the generally accepted accounting principles and requirements established by the Government Accounting Standards Board.

### Description of Basic Financial Statements

This **Management Discussion and Analysis** is intended to supplement the Agency's financial statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The statements are accompanied by footnotes to clarify unique accounting policies and other financial information, and required supplementary information. The assets, liabilities and expenses of the Agency are reported on an accrual basis.

The **Statement of Net Position** is the Agency's balance sheet. It provides information on all of the Agency's assets and liabilities, with the difference between the two representing net position (equity). Assets and liabilities are classified as current, restricted or non-current. Changes from one year to the next in total net position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position.

The **Statement of Revenues, Expenses and Changes in Net Position** represents the Agency's income statement. Revenues earned and expenses incurred during the fiscal year are classified as either "operating" or "non-operating." All revenues and expenses are recognized as soon as the underlying activity occurs, regardless of the timing of related cash flows.

The **Statement of Cash Flows** presents the changes in the Agency's cash and cash-equivalents during the fiscal year. This statement is prepared using the direct method of cash flow, and categorizes the sources in uses of Agency cash and cash-equivalents as follows:

- Cash flow from operating activities
- Cash flow from capital and related financing activities
- Cash flows from investing activities

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statement. The notes describe the nature of the Agency's operations and significant accounting policies as well as clarify any unique financial information.



## AGENCY FINANCIAL ANALYSIS

The financial statements provide information about the Agency's overall financial condition. This section of the analysis summarizes the financial statements of the Agency:

**Table 1: Statement of Net Position**  
**For the Years Ended June 30, 2020 and 2019**  
**(in thousands)**

	2020	2019	Change from Prior Year
<b>ASSETS</b>			
Current Assets:			
Cash and investments	\$ 8,454	\$ 8,450	\$ 4
Cash and investments with fiscal agent	3,660	2,663	997
Interest receivable	38	42	(4)
Non-current Assets:			
Nondepreciable capital assets	3,053	3,053	-
Depreciable, net of depreciation	180,969	186,562	(5,593)
Note receivable	43,172	44,095	(923)
Total Assets	<u>239,346</u>	<u>244,865</u>	<u>(5,519)</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	2,205	2,056	149
Loans and bonds payable	7,976	7,766	210
Non-current Liabilities:			
Loans and bonds payable	209,806	217,782	(7,976)
Total Liabilities	<u>219,987</u>	<u>227,604</u>	<u>(7,617)</u>
<b>NET POSITION</b>			
Net investment in capital assets	(13,782)	(15,504)	1,722
Unrestricted	33,141	32,765	376
Total Net Position	<u>\$ 19,359</u>	<u>\$ 17,261</u>	<u>\$ 2,098</u>

## ANALYSIS OF NET POSITION

Net position represents the difference between the Agency's resources and its obligations. Over time, net position may serve as a useful indicator of a governmental entity's financial position. For the Agency, assets exceeded liabilities by \$19.4 million at the close of the fiscal year ending June 30, 2020. The increase of \$1 million in cash and investments with fiscal agent resulted from deposits made to meet conditions of the State Revolving Fund loan Funding Agreement benefiting the City of Woodland.

The Agency's net position reflects its \$239.3 million in total assets net of \$220.0 million in total liabilities. Total assets include cash, cash equivalents and interest receivable totaling \$12.2 million and capital assets (e.g. land, buildings and equipment related to the construction of the water supply project facilities) and long-term receivables totaling \$227.2 million. Total liabilities include current liabilities of \$10.2 million and long-term debt liabilities of \$210.0 million.

**CHANGES IN NET POSITION**

The Agency’s overall net position increased by \$2.1 million since prior fiscal year, from \$17.3 million to \$19.4 million. The Agency ended the fiscal year with an unrestricted net position of \$53.1 million representing a decrease of \$0.1 million from the prior year.

	<u>2020</u>	<u>2019</u>	<u>Change from Prior Year</u>
OPERATING REVENUES	\$ 7,571	\$ 8,210	\$ (639)
OPERATING EXPENSES			
Contract services	7,309	6,185	1,124
Professional services	153	796	(643)
Maintenance	431	362	69
Other	26	75	(49)
Depreciation	5,593	5,593	-
Total operating expenses	<u>13,512</u>	<u>13,011</u>	<u>501</u>
Operating Income (Loss)	<u>(5,941)</u>	<u>(4,801)</u>	<u>(1,140)</u>
NON-OPERATING REVENUES (EXPENSES)			
Use of money and property	350	260	90
Interest expense	(3,149)	(3,268)	119
Other income	10,838	10,257	581
Capital reimbursements to member agencies	-	(1,648)	1,648
Total non-operating revenues	<u>8,039</u>	<u>5,601</u>	<u>2,438</u>
Changes in Net Position	2,098	800	1,298
Net Position - Beginning	17,261	16,461	800
Net Position - Ending	<u>\$ 19,359</u>	<u>\$ 17,261</u>	<u>\$ 2,098</u>

**REVENUE**

Agency revenues are entirely derived from contributions from member agencies. To support Agency operations, maintenance and debt obligations, the cities of Woodland and Davis have adopted respective multi-year water rate ordinances consistent with the public approval process required by Proposition 218. For the fiscal year ended June 30, 2020, member agency contributions recorded as operating revenues totaled \$7.6 million. Non-operating income of \$10.8 was used by the Agency to support principal and interest payments over the fiscal year.

**EXPENSES**

The Agency’s operating expenses for the year ending June 30, 2020 totaled \$13.5 million as compared to \$13.0 million in FY 2018/19. For the 2019/20 fiscal year, the majority of operating expenses were comprised of contract services (\$7.3 million) and depreciation expenses (\$5.6 million). The balance of operating expenses (\$0.6 million) included maintenance, agency administration, fuel, water purchases and other miscellaneous expenses.

Non-operating expenses through June 30, 2020 included \$3.1 million in interest payments.

## CAPITAL ASSETS

As of June 30, 2020, the Agency is reporting total investment in capital assets of \$184.0 million, including \$203.3 million of water supply project facilities and additional \$3.1 million in land and acquired easements, offset by \$22.4 million in accumulated depreciation recorded through the end of the fiscal year.

**Table 3: Capital Assets at June 30, 2020 and 2019**  
(in thousands)

	Beginning Balance June 30, 2019	Additions & Transfers	Ending Balance June 30, 2020
Capital assets not being depreciated:			
Land easements	\$ 3,053	\$ -	\$ 3,053
Capital assets being depreciated			
Buildings	137,618	-	137,618
Equipment	25,488	-	25,488
Utility underground system	40,233	-	40,233
Total capital assets being depreciated	<u>203,339</u>	<u>-</u>	<u>203,339</u>
Less accumulated depreciation for:			
Buildings	(8,257)	(2,752)	(11,009)
Equipment	(4,346)	(1,449)	(5,795)
Utility underground system	(4,175)	(1,392)	(5,567)
Total accumulated depreciation	<u>(16,778)</u>	<u>(5,593)</u>	<u>(22,371)</u>
Net capital assets being depreciated	<u>186,561</u>	<u>(5,593)</u>	<u>180,968</u>
Net capital assets	<u>\$ 189,614</u>	<u>\$ (5,593)</u>	<u>\$ 184,021</u>

## LONG-TERM DEBT

The Agency has secured separate loans from the State Revolving Fund – one totaling \$111.4 million originating from the California Department of Public Health (CDPH) for Safe Drinking Water Act funds in support of the City of Woodland’s share of regional project costs, and one totaling \$95.5 million originating from the State Water Resources Control Board (SWRCB) for Clean Water Act funds in support of the City of Davis’ share of regional project costs. Each city’s water utility rate revenues in turn secure both of these loans.

In addition, in December 2015, the Agency issued the 2015 Subordinate Refunding Water Revenue Bonds in the amount of \$21.4 million to refund the outstanding principal amount of a 2010 Promissory Note used to finance acquisition of supplemental summer water rights on behalf of the City of Davis.

In November 2017, the Agency issued the Refunding Water Revenue Bonds, Series 2017 A and B in the amount of \$24.7 million on behalf of the City of Woodland. The proceeds from the 2017 Series A Bonds of \$22.3 million were used to refund the outstanding principal amount of the Preservation Group note. The proceeds from the 2017 Series B Bonds of \$2.4 million were used to refinance a portion of the Preservation Group note.

Through June 30, 2020, the Agency has drawn a total of \$103.3 million from the Safe Drinking Water State Revolving Fund loan funding the City of Woodland's share of regional project costs, and \$89.4 million from the Clean Water State Revolving Loan fund secured on behalf of the City of Davis. The outstanding balance on the Subordinate Refunding Water Revenue Bonds for the City of Davis was \$20.0 million as of the end of the fiscal year. The outstanding balance on the Subordinate Refunding Water Revenue Bonds for the City of Woodland was \$20.0 million as of the end of the fiscal year.

#### **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide Agency Board, member agencies, project partners, citizens, ratepayers, investors and creditors with a general overview of the Agency's finances, and to demonstrate the Agency's accountability for the money it receives and expends. For questions about this report, or if additional information is need, individuals may contact the Woodland-Davis Clean Water Agency at (530) 379-4027 or visit the Agency's website at <http://www.wdcwa.com>.

WOODLAND-DAVIS CLEAN WATER AGENCY  
STATEMENT OF NET POSITION  
JUNE 30, 2020

ASSETS

Current Assets:	
Cash and investments (Note 2)	\$8,454,267
Cash and investments with fiscal agent (Note 2)	3,660,079
Interest receivable	<u>37,591</u>
Total Current Assets	<u>12,151,937</u>
Non-Current Assets:	
Capital assets (Note 3)	
Non-depreciable	3,052,894
Depreciable, net of depreciation	180,968,926
Note Receivable (Note 4)	<u>43,171,839</u>
Total Non-Current Assets	<u>227,193,659</u>
Total Assets	<u>239,345,596</u>

LIABILITIES

Current Liabilities:	
Accounts payable	2,204,962
Loans and bonds payable (Note 6)	<u>7,976,017</u>
Total Current Liabilities	<u>10,180,979</u>
Non-Current:	
Bonds payable (Note 6)	42,159,150
Loans payable (Note 6)	<u>167,646,419</u>
Total Non-Current Liabilities	<u>209,805,569</u>
Total Liabilities	<u>219,986,548</u>

NET POSITION:

Net investment in capital assets	(13,782,321)
Unrestricted	<u>33,141,369</u>
Total Net Position	<u><u>\$19,359,048</u></u>

See accompanying notes to financial statements

WOODLAND-DAVIS CLEAN WATER AGENCY  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2020

OPERATING REVENUES (EXPENSES)	
Charges for services	\$7,571,256
OPERATING EXPENSES	
Contract Services	7,308,526
Professional services	153,173
Maintenance	431,581
Other	26,523
Depreciation expense (Note 3)	<u>5,592,555</u>
Total operating expense	<u>13,512,358</u>
Total operating loss	<u>(5,941,102)</u>
NON-OPERATING REVENUES (EXPENSES)	
Use of money and property	350,268
Other income	10,837,793
Interest expense	<u>(3,149,527)</u>
Total non-operating revenues (expenses)	<u>8,038,534</u>
Changes in Net Position	2,097,432
Net Position - Beginning of the Year	<u>17,261,616</u>
Net Position - End of the Year	<u><u>\$19,359,048</u></u>

See accompanying notes to financial statements

WOODLAND-DAVIS CLEAN WATER AGENCY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$7,571,256
Payment to vendors	(7,771,196)
Other receipts	<u>10,837,793</u>
Net Cash Used by Operating Activities	<u>10,637,853</u>
CASH FLOWS FROM CAPITAL AND RELATED	
Receipts from notes receivable	923,013
Principal paid	(7,765,761)
Interest and financing fees paid	<u>(3,149,527)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(9,992,275)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>355,174</u>
Net Cash Provided by Investing Activities	<u>355,174</u>
Net Increase in Cash and Cash Equivalents	1,000,752
Cash and Cash Equivalents at beginning of year	<u>11,113,594</u>
Cash and Cash Equivalents at end of year	<u><u>\$12,114,346</u></u>
Reconciliation of Operating Income to	
Cash Flows from Operating Activities:	
Operating income (loss)	(\$5,941,102)
Adjustments to reconcile operating income (loss)	
to cash flows from operating activities:	
Depreciation	5,592,555
Other income	10,837,793
Change in assets and liabilities	
Accounts payable	<u>148,607</u>
Net Cash Used by Operating Activities	<u><u>\$10,637,853</u></u>

See accompanying notes to financial statements

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## **BASIC FINANCIAL STATEMENTS**

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**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Woodland-Davis Clean Water Agency (Agency) was established on September 15, 2009, under a joint powers agreement (the JPA Agreement) by the City of Davis and City of Woodland (Member Cities), with a principal goal to provide a long-term, secure, reliable, high-quality water supply for the mutual benefit of the cities.

The Agency is governed by a Board of Directors (the Board) consisting of two representatives from each of the cities. In addition, the University of California, Davis, also participates in the Agency as a Participating Agency with a non-voting member who sits on the Board.

The accounting policies of the Agency conform with generally accepted accounting principles applicable to governments. The following is a summary of the significant policies:

**Basis of Presentation**

The Agency's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S. These Statements require that the financial statements described below be presented.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position display information about the primary government (the Agency). These statements include the financial activities of the Agency overall. These statements display the *business-type activities* of the Agency. Business-type activities are financed in whole or in part by fees charged to external parties.

**Basis of Accounting**

The Agency uses the accounting principles applicable to enterprise funds. The Agency uses an economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Agency's operations. The principal operating revenues of the Agency are charges paid by recipients for goods or services offered by the Agency. The principal operating expenses of the Agency are professional and legal services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities and result from non-exchange transactions or ancillary activities.

**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial Statement Elements**

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the accompanying statement of cash flows, the Agency considers all highly liquid investments with a maturity of three months or less when purchased, and its equity in the City's pooled investments to be cash equivalents. The Agency considers funds held with the City of Davis to be cash and cash equivalents.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Net Position

Net position is the excess of all the Agency's assets over all its liabilities. Net position is divided into three captions as described below:

*Net Investment in Capital Assets* describes the portion of net position which is represented by the current net book value of the capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects (expendable) or contributions received in permanent funds (nonspendable).

*Unrestricted* describes the portion of net position which is not restricted to use.

When expenses are incurred for purposes for which both restricted and unrestricted net position is available, it is the Agency's policy to first apply restricted net position.

**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In September 2015, the Agency established a Contingency Reserve Fund. The General Manager may use monies from the Fund for authorized purposes to the extent of the General Manager spending authority as established by the Agency Board. Any use of the Fund beyond the General Manager spending authority requires the approval of the Board. The Fund should be used for the following purposes: to pay unbudgeted and unanticipated Agency operation, maintenance, management or administrative expenses that are not covered under the CH2M Hill Service Contract; to provide cash flow money to cover construction costs in the event of delays in receiving timely disbursement of State Revolving Fund money; to fund joint intake facility construction costs that result from a delay or shortfall in receiving full federal or state grant funding for the anticipated funding share; to cover other cash flow needs due to revenue delays or shortfalls; to pay uninsured losses; and to provide for project capital improvements, repairs and replacements to the extent not covered under the Service Contract or Repair and Replacement Account. The balance in the Contingency Reserve Fund, as of June 30, 2020 was \$1,532,370, which is included in Unrestricted Net Position.

Fair Value Measurements

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

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

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

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

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

**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 2 – CASH AND INVESTMENTS**

Other than cash and investments with fiscal agents, the Agency pools cash from all sources and all funds with the City of Davis so that it can be invested at the maximum yield, consistent with safety and liquidity, while allowing the Agency to make expenditures at any time. The City's investment policy permits investments in the State of California Local Agency Investment Fund (LAIF Pool), California Asset Management Program (CAMP Pool), Certificates of Deposit, Negotiable Certificates of Deposit, Banker's Acceptances, Securities of the U.S. Government and its Agencies, Repurchase Agreements, Commercial Paper, Money Market Mutual Funds, and Local Agency Bonds. Investment income is allocated among funds within the pool on the basis of average daily cash and investment balances in these funds. Interest income on certain investments is allocated based on the source of the investment and legal requirements which apply.

The Agency did not adopt its own investment policy, but rather approved a resolution designating the City of Davis as its depository of Agency's funds. The details of the City of Davis' investment pool and related risks can be found in the City's Comprehensive Annual Financial Report.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. At June 30, 2020, all investments held by the Agency had maturity dates of less than one year.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The actual rating as of June 30, 2020 for the U.S. Bank Money Market Funds was AAAM as provided by Standard and Poor's investment ratings service.

Fair Value Hierarchy

The Agency categorizes its fair value measurements within the fair value hierarchy established by Generally Accepted Accounting Principles (GAAP). The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

At June 30, 2020, the Agency held, in its fiscal agent accounts, money market funds totaling \$3,660,079 which were classified as Level 2 investments of the fair value hierarchy are valued at one dollar per share.

**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 3 – CAPITAL ASSETS**

Capital costs of the Agency, as defined by the JPA Agreement, include costs of construction, financing, acquiring, planning, designing, environmental documentation and permitting, and the funding of a reasonable construction reserve. As defined in the JPA Agreement, all project facilities, other than any "individually-owned project facilities" as specified in the JPA Agreement, shall be owned by and held in the name of the Authority for the benefit of project participants. Upon completion of construction of any individually-owned project facility, the Agency will convey all of its right, title and interest in the completed individually-owned project facility to the Member Cities, whereby the Member Cities would be responsible for the ownership, operation, maintenance, repair, replacement, modification and improvement. The Agency has no obligation to operate, maintain, repair, replace, modify or improve any individually-owned project facilities.

Capital assets activities for the year ended June 30, 2020, were as follows:

	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Balance at June 30, 2020</u>
Capital assets not being depreciated:			
Land Easements	\$3,052,894		\$3,052,894
Total capital assets not being depreciated	<u>3,052,894</u>		<u>3,052,894</u>
Capital assets, being depreciated:			
Buildings	137,618,477		137,618,477
Equipment	25,487,660		25,487,660
Utility Underground Systems	<u>40,233,009</u>		<u>40,233,009</u>
Net capital assets being depreciated	<u>203,339,146</u>		<u>203,339,146</u>
Less accumulated depreciation for:			
Buildings	(8,257,110)	(\$2,752,370)	(11,009,480)
Equipment	(4,345,989)	(1,448,663)	(5,794,652)
Utility Underground Systems	<u>(4,174,566)</u>	<u>(1,391,522)</u>	<u>(5,566,088)</u>
Total accumulated depreciation	<u>(16,777,665)</u>	<u>(5,592,555)</u>	<u>(22,370,220)</u>
Net capital assets being depreciated	<u>186,561,481</u>	<u>(5,592,555)</u>	<u>180,968,926</u>
Business-type Activities Capital Assets, Net	<u>\$189,614,375</u>	<u>(\$5,592,555)</u>	<u>\$184,021,820</u>

**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 4 – NOTES RECEIVABLE**

**City of Davis**

The Agency has an installment agreement with the City of Davis, California, and receive payments from the net revenues of the City’s Water Fund. The installment receivable mirrors the Agency’s debt service payments for the 2015 Subordinate Refunding Water Revenue Bonds, Series A, and 2015 Second Subordinate Bonds, Series B. As of June 30, 2020, the balance of the note receivables from the City of Davis was \$19,977,445 from the City of Davis. See further discussion in Note 6 to the financial statements.

**City of Woodland**

The Agency has an installment agreement with the City of Woodland, California, and will receive payments from the net revenues of the City’s Water Fund. The installment receivable mirrors the Agency’s debt service payments for the 2017 Subordinate Refunding Water Revenue Bonds, Series A and the 2017 Second Subordinate Refunding Bonds, Series B. As of June 30, 2020, the balance of the note receivable was \$23,194,394. See further discussion in Note 6 in the financial statement.

**NOTE 5 – CAPITAL CONTRIBUTIONS**

The Agency members, City of Woodland and City of Davis, contribute a proportionate share of the overall project costs. To support anticipated project costs, both of the cities of Woodland and Davis have adopted respective multi-year water rate ordinances consistent with the public approval process required by Proposition 218.



**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 6 – NOTES PAYABLE AND LONG-TERM DEBT**

The Agency generally incurs long-term debt for finance projects or purchase assets, which have useful lives equal or greater than the related debt. The Agency’s long-term debt activities for the year ended June 30, 2020 were as follows:

	Balance July 01, 2019	Retirements	Balance June 30, 2020	Current Portion
<b>Bonds:</b>				
2015 Subordinate Refunding Water Revenue Bonds, Series A 3.00% - 5.00%, due 3/1/39	\$18,615,000	\$415,000	\$18,200,000	\$455,000
2017 Subordinate Refunding Water Revenue Bonds, Series A 2.00% - 5.00%, due 3/1/39	21,605,000	435,000	21,170,000	480,000
Total	<u>40,220,000</u>	<u>850,000</u>	<u>39,370,000</u>	<u>935,000</u>
<b>Direct Borrowings:</b>				
2015 Second Subordinate Bonds, Series B 4.697%, due 3/1/39	1,814,239	36,794	1,777,445	36,920
2017 Second Subordinate Refunding Bonds, Series B 5.00%, due 3/1/39	2,060,613	36,219	2,024,394	40,769
Safe Drinking Water State Revolving Fund Loan 1.79%, due 9/30/46	96,750,842	4,455,584	92,295,258	4,535,583
Clean Water State Revolving Fund Project 1.70%, due 9/30/46	84,701,653	2,387,164	82,314,489	2,427,745
Total	<u>185,327,347</u>	<u>6,915,761</u>	<u>178,411,586</u>	<u>7,041,017</u>
Total Business-type Activities Long-Term Debt	<u>\$225,547,347</u>	<u>\$7,765,761</u>	<u>\$217,781,586</u>	<u>\$7,976,017</u>

**2015 Subordinate Refunding Water Revenue Bonds Series A and Series B** – In December 2015 the Agency issued the 2015 Subordinate Refunding Water Revenue Bonds Series A in the amount of \$19,495,000. The proceeds from the 2015 Series A Bonds were used to refund the outstanding principal amount of the 2010 Note. The 2010 Note was used to finance the acquisition of water rights on behalf of the City of Davis. The 2015 Bonds Series A bonds bear a variable interest rate of 3.00% - 5.00%.

Proceeds from the 2015 Second Subordinate Bonds Series B will be used to finance the acquisition of the water rights on behalf of the City of Davis. The 2015 Series B Bonds are payable from Installment Payments remaining after payment of the 2015 Series A Bonds. The Bonds bear interest at a rate of 4.697%.

Principal payments of the Bonds are due annually on March 1 through 2039 and semi-annual interest payments of the bonds are due September 1 and March 1 commencing on September 1, 2016. The bonds are payable from revenues of the Agency, consisting primarily of installment payments made by the City of Davis to the Agency.

**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 6 – NOTES PAYABLE AND LONG-TERM DEBT (Continued)**

The Bonds are payable from the net revenues of its water enterprise system. The bond covenants contain events of default that require the revenue of the Agency to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: (1) default on debt service payments; (2) failure of the Agency to observe or perform the conditions, covenants or agreement terms of the debt; (3) insolvency or bankruptcy filing of the Agency; (4) or if a court or competent jurisdiction shall assume custody or control of the Agency. There were no such events during the fiscal year ending June 30, 2020.

The outstanding balance on the Bonds as of June 30, 2020 was \$18,200,000 and \$1,777,445 for Series A and B, respectively.

**2017 Subordinate Refunding Water Revenue Bonds Series A and Series B**

In November 2017, the Agency issued the Refunding Water Revenue Bonds, Series 2017 A in the principal amount of \$22,270,000. The proceeds from the 2017 Series A Bonds were used to refund the outstanding principal amount of the Preservation Group note. The 2017 Bonds Series A bonds bear an interest rate of 2.00% - 5.00%.

Proceeds from the 2017 Subordinate Water Revenue Refunding Bonds, Series 2017 B in the principal amount of \$2,414,055 were used to refinance a portion of the Preservation Group note. The Bonds bear interest at a rate of 5.00%.

Principal payments of the Bonds are due annually on March 1 through 2039 and semi-annual interest payments of the bonds are due September 1 and March 1 commencing on March 1, 2018. The bonds are payable from revenues of the Agency, consisting primarily of installment payments made by the City of Woodland to the Agency.

Covenants within the installment purchase agreement require the City of Woodland is to establish annual rates sufficient to pay operating expenses and debt service payments in each fiscal year. In addition, such rates shall be charged to produce net revenues equal to at least 110% of the debt service payments due and payable in each fiscal year.

The Bonds are payable from the net revenues of its water enterprise system. The bond covenants contain events of default that require the revenue of the Agency to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: (1) default on debt service payments or any additional payments due; (2) failure of the Agency to observe or perform the conditions, covenants or agreement terms of the debt; (3) insolvency or bankruptcy filing of the Agency; (4) or Default by the Agency under the terms of any obligation secured by a pledge of Net Revenues, including Senior Obligations and Parity Obligations. There were no such events during the fiscal year ending June 30, 2020.

The outstanding balance on the Bonds as of June 30, 2020 was \$21,170,000 and \$2,024,394 for Series A and B, respectively.

**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 6 – NOTES PAYABLE AND LONG-TERM DEBT (Continued)**

**Safe Drinking Water State Revolving Fund Loan** - In June 2014, the Agency executed a funding agreement with the California State Department of Public Health to assist in financing the construction of a project which will enable the Agency to meet safe drinking water standards. The funds are specifically to finance the City of Woodland's share of regional project costs incurred by the Agency and may be used only for eligible project costs as approved by the State. The loan in the amount of \$111,358,449 bears an interest rate of 1.79% and will be repaid over the term of 20 years. The loan amount will be recognized upon drawdown of loan proceeds based on qualified projects expenses. As of June 30, 2020, the Agency had total drawdowns of \$103,294,819 with a \$4,455,583 of current year principal retirement.

The Safe Drinking Water State Revolving Fund Loan is payable from the net revenues of its water enterprise system. The loan covenant contains events of default that require the revenue of the Agency to be applied by the Trustee as specified in the terms of the agreement if any of the following conditions occur: (1) default on debt service payments and remittances required by agreement; (2) material breach of agreement; (3) false warranty, representation, and statement with respect to the project; (4) loss, theft, damage and seizure of collateral given as security; (5) insolvency or bankruptcy filing by the Agency. There were no such events during the fiscal year ending June 30, 2020.

**Clean Water State Revolving Fund Project** - In December 2014, the Agency executed a public owned treatment works construction financing installment sale agreement with the California State Water Resources Board to assist in financing the construction of a project in relation to the Clean Water Act. The funds are specifically to finance the City of Davis share of regional project costs incurred by the Agency and may be used only for eligible project costs as approved by the State. The loan in the amount of \$95,461,000 bears an interest rate of 1.70% and will be repaid over the term of 30 years with the first payment due on principal and interest on September 30, 2017 and the last payment due on September 30, 2046. As of June 30, 2020, the Agency had total drawdowns of \$89,397,519 with a \$2,427,745 of current year principal retirement.

Future principal and interest payments on long-term debt were as follows at June 30, 2020:

Fiscal Year Ending June 30,	Direct Borrowings		Bonds	
	Principal	Interest	Principal	Interest
2021	\$7,041,017	\$3,213,653	\$935,000	\$1,663,214
2022	7,177,760	3,087,172	1,015,000	1,630,364
2023	7,316,595	2,957,846	1,105,000	1,589,414
2024	7,449,275	2,825,648	1,205,000	1,548,664
2025	7,590,170	2,690,930	1,320,000	1,488,414
2026-2030	40,157,728	11,332,577	8,605,000	6,339,670
2031-2035	44,125,919	7,510,333	12,265,000	4,270,096
2036-2040	32,496,072	3,534,242	12,920,000	1,521,780
2041-2045	17,593,714	1,541,746		
2046-2047	7,463,336	190,850		
Total	<u>\$178,411,586</u>	<u>\$38,884,997</u>	<u>\$39,370,000</u>	<u>\$20,051,616</u>

**WOODLAND-DAVIS CLEAN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE 7 – RISK MANAGEMENT**

The Agency is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. The JPA Agreement for the Agency requires that the Agency maintain insurance in an amount sufficient to protect the Agency and its member Cities. Insurance shall include coverage for automobile liability, comprehensive general liability, public officials' errors and omissions, workers' compensation, excess liability and other perils as directed by the Board of Directors.

The Agency is a member of the Yolo County Public Agency Risk Management Insurance Authority which provides annual coverage for general liability and automobile liability. The excess coverage for both general liability and automobile liability insurance is \$40,000,000 with a deductible of \$5,000. The Agency has not had any settlements in excess of the coverage in the last three years.

**NOTE 8 – RELATED PARTIES**

The Cities of Davis and Woodland charge the Agency for administrative services provided throughout the year for use of administrative staff, accounting systems, and other administrative services provided to the Agency. For the fiscal year ended June 30, 2020, the City of Woodland and the City of Davis charged the Agency \$40,000 and \$40,000 respectively. These charges were expensed as operating expenses.

**NOTE 9 – COMMITMENT**

The Agency has a significant contractual agreement with CH2M Hill for engineering, construction and operating contracts relating to the design, construction and operation of the Water Supply Project. This contract will be paid in future periods as the work is performed. Payment will be made with capital contributions from the member agencies, proceeds from the State Revolving Loans, and future operating revenues to be received.

**NOTE 10 – CONTINGENCIES**

The Agency is subject to litigation arising in the normal course of business. In the opinion of the Agency there is no pending litigation which is likely to have a material adverse effect on the financial position of the Agency.