AGENDA ITEM NO. 8
Meeting Date: 5/27/20

SILICON VALLEY
ANIMAL CONTROL AUTHORITY

AGENDA ITEM

General Purpose Financial Statements FY 2018-2019

RECOMMENDED MOTION

That the General Purpose Financial Statements for the period from July 1, 2018 to June 30, 2019 prepared by Maze & Associates be received and filed.

DISCUSSION

The following Financial Statement covers the period of July 1, 2018-June 30, 2019. This statement was prepared by Maze & Associates in conjunction with SVACA staff.

This agenda item contains a copy of the report. An original document is available upon request.

DOCUMENTS ATTACHED

Copy of Silicon Valley Animal Control Authority General Purpose Financial Statements for the period from July 1, 2018 to June 30, 2019.

Copy of Memorandum on Internal Control and Required Communications

SILICON VALLEY ANIMAL CONTROL AUTHORITY

BASIC FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

PREPARED BY THE EXECUTIVE DIRECTOR AND ADMINISTRATION DEPARTMENT

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SILICON VALLEY ANIMAL CONTROL AUTHORITY
BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Silicon Valley Animal Control Authority
Santa Clara, California

We have audited the accompanying financial statements of the Silicon Valley Animal Control Authority (SVACA) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise SVACA's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 SVACA'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 SVACA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of SVACA as of June 30, 2019 and 2018, and changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SVACA's basic financial statements as a whole. The Supplemental Section as listed in the Table of Contents is presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

Maze & Associates

Pleasant Hill, California
March 2, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Silicon Valley Animal Control Authority has issued the financial reports for fiscal year ending June 30, 2019 based on the provisions of the Government Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34). One of the most significant requirements of GASB 34 is for government entities to prepare financial reports using the full accrual basis of accounting. Since Silicon Valley Animal Control Authority has always been using this method of accounting, changes in its financial reports are primarily in the format of presentation.

GASB 34 requires Silicon Valley Animal Control Authority to provide an overview of financial activities in the fiscal year and it should be read in conjunction with the accompanying financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

(1) Statement of Net Positions—provides information about the financial position of Silicon Valley Animal Control Authority, including assets, liabilities and net assets. The difference between this statement and the traditional Balance Sheet is that net assets (fund equity) are shown as the difference between total assets and total liabilities.

(2) Statement of Activities—presents revenues, expenses and changes in net assets for the fiscal year. It differs with the traditional Statement of Revenues and Expenses in that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.

(3) Statement of Cash Flows—provides itemized categories of cash flows. This statement differs from the traditional Statement of Cash Flows in that it presents itemized categories of cash in flows and out flows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating income. In addition, cash flows related to investments and financing activities are presented separately.

FISCAL YEAR 2018 FINANCIAL HIGHLIGHTS

Silicon Valley Animal Control Authority's financial highlights for the fiscal year include the following:

- Total net position at June 30, 2019 was $6,338,585. At June 30, 2018, total position was $6,168,492.
- Total operating revenues were $2,288,234 in FY 2019, while total operating expenses were $2,165,226.

CLAIMS SETTLEMENT AND RESERVES FOR CLAIMS

During fiscal year 2019 no claims were paid.

INVESTMENT ACTIVITIES

As required by GASB, Silicon Valley Animal Control Authority reports its investments at fair value. At June 30, 2019, Silicon Valley Animal Control Authority had $1,929,827 invested in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California.

MAJOR PROGRAM INITIATIVES AND ECONOMIC OUTLOOK

2018-19 proved to be another fantastic year as SVACA continued to be "No Kill" by finishing with a 95% Live Release Rate. One of SVACA's goals since its inception was to develop, construct, and operate a state-of-the-art facility that would become a place that the public would use for a variety of purposes and offer homeless animals a second chance. SVACA continues to provide solid proof that various government bodies can work together to provide what our residents and their animals need and want.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The Basic Financial Statements are intended to provide Silicon Valley Animal Control Authority members, citizens, creditors and other interested parties a general overview of the Silicon Valley Animal Control Authority's finances. Questions about these statements should be directed to Silicon Valley Animal Control Authority, 3370 Thomas Road, Santa Clara, CA 95054.

STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The purpose of the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position is to summarize SVACA's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all SVACA's assets, liabilities, deferred inflows/outflows of resources, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the SVACA's transactions is taken into account, regardless of whether or when cash changes hands.

The Statement of Net Position reports the difference between SVACA's total assets and deferred outflows of resources and SVACA's total liabilities and deferred inflows of resources, including all SVACA's capital assets and all its long-term debt. The Statement of Net Position presents information in a way that focuses the reader on the composition of SVACA's net position, by subtracting total liabilities from total assets.

The Statement of Revenue, Expenses and Changes in Net Position reports increases and decreases in SVACA's net position. It is also prepared on the full accrual basis, which means it includes all SVACA's revenues and all its expenses, regardless of when cash changes hands.

SILICON VALLEY ANIMAL CONTROL AUTHORITY
STATEMENT OF NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

ASSETS

	2019	2018
Current Assets		
Cash and investments (Note 2):		
Cash in bank	$426,184	$781,311
Local Agency Investment Fund	1,929,827	1,883,938
Petty cash	200	400
Accounts receivable, net	7,340	4,690
Prepaids	6,924	7,063
Total Current Assets	2,370,475	2,677,402
Capital assets (Note 3):		
Depreciable	6,492,227	6,406,938
Less accumulated depreciation	(2,618,247)	(2,421,572)
Capital assets, net	3,873,980	3,985,366
Total Assets	6,244,455	6,662,768
DEFERRED OUTFLOWS OF RESOURCES		
Related to pension (Note 5)	943,597	387,753
Total Deferred Outflows of Resources	943,597	387,753
LIABILITIES		
Current Liabilities		
Accounts payable	45,829	14,221
Accrued payroll	43,829	60,695
Accrued compensated absences (Note 1F)	137,492	165,324
Total Current Liabilities	227,150	240,240
Noncurrent Liabilities		
Collective net pension liability (Note 5)	586,012	600,963
Total Liabilities	813,162	841,203
DEFERRED INFLOWS OF RESOURCES		
Related to pension (Note 5)	36,305	40,826
Total Deferred Inflows of Resources	36,305	40,826
NET POSITION (Note 6)		
Net investment in capital assets	3,873,980	3,985,366
Restricted:		
Chubz Fund	4,486	4,486
Maddie's Fund	61,438	61,438
Animal Assistance Fund	827	827
Unrestricted	2,397,854	2,116,375
Net Position	$6,338,585	$6,168,492

See accompanying notes to basic financial statements

SILICON VALLEY ANIMAL CONTROL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
PROGRAM OPERATING REVENUES		
Member operating contributions (Note 4)	$1,878,156	$1,820,287
Licensing	183,851	185,030
Program fees	214,625	225,701
Miscellaneous	11,602	13,965
Total Operating Revenues	2,288,234	2,244,983
PROGRAM OPERATING EXPENSES		
Advertising	605	694
Bad debt expense		5,387
Bank service charges	36,917	28,028
Computer costs	5,540	5,644
Contract veterinarians	23,551	21,766
Wildlife Center contract	26,175	25,437
Facility expenses:		
Utilities	91,360	87,138
Custodial service	26,188	17,024
Building maintenance	30,583	38,231
Communications	11,355	13,030
Dues and subscriptions	2,830	1,800
Equipment expenses	7,324	8,570
Insurance	56,924	48,290
Supplies and miscellaneous	2,513	2,768
Postage/Shipping	5,395	7,581
Printing	282	1,633
Professional services	34,897	29,842
Salaries, wages and benefits	1,474,004	1,812,056
Stipend	53,584	
Animal care	22,822	47,341
Vehicle expenses	46,355	21,417
Materials, services and supplies (MS&S)	9,347	10,543
Depreciation (Note 3)	196,675	187,953
Total Program Operating Expenses	2,165,226	2,422,173
NET OPERATING INCOME (LOSS)	123,008	(177,190)
NON-OPERATING REVENUES		
Animal Assistance Fund donations	1,196	78,579
Chubz Fund donations		50
Capital contributions		120,000
Interest income	45,889	26,529
Net Non-Operating Revenues	47,085	225,158
NET CHANGE IN NET POSITION	170,093	47,968
NET POSITION AT BEGINNING OF YEAR	6,168,492	6,120,524
NET POSITION AT END OF YEAR	$6,338,585	$6,168,492

See accompanying notes to basic financial statements

SILICON VALLEY ANIMAL CONTROL AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from member agencies	$1,878,156	$1,820,287
Cash received from customers	407,428	423,865
Payments for salaries, wages and benefits	(1,518,702)	(1,794,409)
Payments to suppliers	(988,390)	(313,215)
Payments for Wildlife Center contract and contract veterinarians	(49,726)	(47,203)
Net Cash (Used) Provided by Operating Activities	(271,234)	89,325
CASH FLOWS FROM NON-CAPITAL ACTIVITIES		
Animal Assistance Funds	1,196	78,579
Chubz Fund Donations		50
Net Cash Flows Provided by Non-Capital and Related Financing Activities	1,196	78,629
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(87,357)	
Proceeds from sale of capital assets	2,068	
Capital Contributions		120,000
Net Cash Flows (Used) Provided by Capital and Related Financing Activities	(85,289)	120,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	45,889	26,529
Net Cash Provided by Investing Activities	45,889	26,529
NET CASH FLOWS	(309,438)	314,483
CASH AND INVESTMENTS AT BEGINNING OF YEAR	2,665,649	2,351,166
CASH AND INVESTMENTS AT END OF YEAR	$2,356,211	$2,665,649
PRESENTATION ON STATEMENT OF NET POSITION:		
Cash in bank	$426,184	$781,311
Local Agency Investment Fund	1,929,827	1,883,938
Petty cash	200	400
	$2,356,211	$2,665,649
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$123,008	($177,190)
Depreciation	196,675	187,953
Change in assets and liabilities:		
Accounts receivable	(2,650)	(831)
Prepaids	139	957
Accounts payable	31,608	5,568
Accrued payroll	(16,866)	(14,975)
Accrued compensated absences	(27,832)	32,622
Net pension liability, deferred inflows and outflows of resources	(575,316)	55,221
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	($271,234)	$89,325

See accompanying notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

Silicon Valley Animal Control Authority (SVACA) is a Joint Powers Agency established in July 2000. SVACA provides animal services to the City of Campbell, City of Monte Sereno, City of Mountain View and the City of Santa Clara. During fiscal year 2019, SVACA was governed by a Board of Directors consisting of one representative each from the Cities of Mountain View, Santa Clara, Campbell and Monte Sereno (see Note 4).

Mission

The mission of SVACA is to ensure the well-being of both animals and people through advocacy, education, and cost effective yet efficient services by providing a superior level of care, compassion, and respect for all living things. SVACA's dedicated, passionate and enlightened Board of Directors, Technical Advisory Committee, volunteers and staff accomplish our mission by enforcing animal control laws, offering progressive programs and services, promoting responsible and humane guardianship, investigating cruelty and abuse, and operating a warm, inviting and state-of-the-art animal care center that encourages the community to participate and help us foster life-long relationships between residents and their animal companions.

Our Vision of the Future

We envision the day when all residents, their property and neighborhood will be safe from the dangers and nuisances of irresponsible animal owners.

We envision the day when animals will not suffer because of human abuse, neglect or ignorance and will be valued as true companions.

We envision the day when every companion animal born will be assured of a forever home and live a full life free from suffering.

We envision the day when the entire community embraces the spaying and neutering of companion animals and wholeheartedly assists us in ending the unnecessary euthanasia of our beloved animal friends.

We believe success will be ours when no animal is euthanized except those for who euthanasia is an escape from suffering or necessary for the safety of people and other animals.

The following is a summary of significant accounting policies of SVACA, which conform with generally accepted accounting principles applicable to governments.

B. Basis of Presentation

SVACA'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.A.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

SVACA is accounted for as an enterprise fund. This fund is a set of self-balancing accounts which comprise its assets, deferred outflows, liabilities, deferred inflows, net position, revenues and expenses.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized. SVACA is accounted for using the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when they are incurred. SVACA follows Governmental Accounting Boards Statements.

E. Risk Management

SVACA is a member of the Special Districts Risk Management Association (SDRMA), a joint powers authority which provides annual general liability and physical damage coverage up to $10,000,000 in the aggregate. SVACA has a $500 deductible for general liability claims and has a $1,000 deductible for physical damage claims. SVACA also has workers' compensation insurance with SDRMA which covers employers' liability and workers' compensation insurance commercially up to $5,000,000 and statutory limit respectively. SVACA has no self-insured retention for workers' compensation claims.

SDRMA is governed by a board consisting of representatives from member municipalities. The board controls the operations of SDRMA, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

SVACA's premiums are based upon the following factors: claims history, total payroll, SVACA's exposure, the results of an on-site underwriting inspection, total insurable values, and employee classification ratings. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating which generally occurs in the third year after the completion of the program year.

SVACA has not had any claims exceeding coverage in any of the past four years.

F. Accrued Compensated Absences

The liability for accrued compensated absences is recorded as an expense when vacation is earned. Accumulated vacation is computed using current employee accumulated vacation hours at current pay rates. Sick leave does not vest and is not accrued.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Deferred Outflows and Inflows of Resources*

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

H. *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 Authority 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.

I. *Estimates*

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

A. Policies

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

SVACA adjusts the carrying value of its investments to reflect their fair market value at each fiscal year end, and it includes the effects of these adjustments in interest income for that fiscal year.

B. Investments Authorized by SVACA's Investment Policy

SVACA's investment policy authorizes investments in the local government investment pool administered by the State of California (LAIF) and certificates of deposit up to $250,000, collateralized at 110% of value.

C. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Cash and investments as of June 30, 2019 consist of the following:

Cash in bank	$426,184
Local Agency Investment Fund	1,929,827
Cash on hand	200
Total cash and investments	$2,356,211

SVACA is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. SVACA reports its investment in LAIF at the fair value amount provided by LAIF. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. At June 30, 2019, these investments matured in an average of 173 days.

NOTE 2 – CASH AND INVESTMENTS (Continued)

D. *Credit Rate Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

NOTE 3 – CAPITAL ASSETS

Capital assets are recorded at cost and depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of fixed assets over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the capital assets.

Depreciation of capital assets in service is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. SVACA has assigned useful lives as follows: Building – 30 years, equipment and furniture - 3 to 7 years, and vehicles - 5 to 10 years. SVACA capitalizes capital assets exceeding $500.

Capital assets comprised the following at June 30, 2019:

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019
Capital assets being depreciated				
Building	$5,812,752			$5,812,752
Equipment & furniture	489,639	$42,186		531,825
Vehicles	104,547	45,171	($2,068)	147,650
Total capital assets being depreciated	6,406,938	87,357	(2,068)	6,492,227
Less accumulated depreciation for:				
Building	(1,842,944)	(175,112)		(2,018,056)
Equipment & furniture	(474,078)	(14,581)		(488,659)
Vehicles	(104,550)	(6,982)		(111,532)
Total accumulated depreciation	(2,421,572)	(196,675)		(2,618,247)
Capital assets, net	$3,985,366	($109,318)	($2,068)	$3,873,980

NOTE 4 – MEMBER OPERATING CONTRIBUTIONS

Operations of SVACA are funded by member contributions. Contributions for field operations are based on a formula weighted on 50% calls for service, 25% population and 25% square miles. The allocation formula for the Shelter is based on the number of animals received at the animal care center.

Member operating contributions were as follows for the year ended June 30, 2019:

Members	Contribution Amount	Contribution Percentage
City of Campbell	$285,946	15.23%
City of Monte Sereno	22,540	1.20%
City of Mountain View	519,155	27.64%
City of Santa Clara	1,050,515	55.93%
Total	$1,878,156	100.00%

NOTE 5 – PENSION PLAN

A. *General Information about the Pension Plan*

Plan Description – All qualified permanent and probationary employees are eligible to participate in SVACA's Miscellaneous Employee Pension Rate Plans. SVACA's Miscellaneous Rate Plans are part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees' Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. SVACA sponsors two miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and SVACA resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

NOTE 5 – PENSION PLAN (Continued)

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.00% to 2.50%
Required employee contribution rates	6.902%	6.25%
Required employer contribution rates	8.892%	6.842%
Required Unfunded Actuarial Liability Contribution	$348,541	

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. SVACA's required contribution for the unfunded liability and side fund was $348,541 in fiscal year 2019.

Contributions – Section 20814(c) of the California Public Employees' Retirement Law 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. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. SVACA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2019, the contributions recognized as part of pension expense for the Plan were $455,423.

NOTE 5 – PENSION PLAN (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, SVACA reported a net pension liability of $586,012 for its proportionate share of the net pension liability of the Plan.

SVACA's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. SVACA's proportion of the net pension liability was based on a projection of SVACA's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. SVACA's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 was as follows:

Proportion - June 30, 2017	0.01524%
Proportion - June 30, 2018	0.01555%
Change - Increase (Decrease)	0.00031%

For the year ended June 30, 2019, SVACA recognized a pension expense of $119,893. At June 30, 2019, SVACA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$455,423	
Differences between actual and expected experience	22,484	$7,651
Changes in assumptions	66,807	16,373
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	395,986	
Net differences between projected and actual earnings on plan investments	2,897	12,281
Total	$943,597	$36,305

NOTE 5 – PENSION PLAN (Continued)

$455,423 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2020	$191,917
2021	173,398
2022	91,825
2023	(5,271)
Total	$451,869

Actuarial Assumptions – The total pension liabilities in the June 30,2017 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous (1)
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	3.00%
Projected Salary Increase	3.2% - 12.2% (2)
Investment Rate of Return	7.15% (3)
Mortality Rate Table	Derived using CalPers Membership Data for all Funds (4)
Post Retirement Benefit Increase	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

(1) Actuarial assumptions are the same for all benefit tiers (Classic Tier I, Classic Tire II, and PEPRA)

(2) Depending on age, service, and type of employment

(3) Net of pension plan investment expenses, including inflation

(4) The mortality table used 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 the CalPERS December 2017 experience study report available on CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30,2017 valuation were based on the result as of a December 2017 actuarial experience study for the period of 1997 to 2015. Further details of the Experience study can be found on the CalPERS website.

NOTE 5 – PENSION PLAN (Continued)

Change of Assumptions – For the measurement date of June 30, 2018, the inflation rate reduced from 2.75% to 2.50%

Discount Rate – The discount rate used to measure the total pension liability for each Plan was 7.15%. The projection of cash flows used to determine the discount rate for each Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) 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, each Plan's fiduciary net position was projected to be available to make all projected benefits payments of current plan members for all plans in the PERF. 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 for each plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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 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 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 equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

NOTE 5 – PENSION PLAN (Continued)

Asset Class (a)	Current Target Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets		0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%		-0.92%
Total	100.00%		

(a) In 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

(b) An expected inflation of 2.0% used for this period.

(c) An expected inflation of 2.92% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents SVACA's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what SVACA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.15%
Net Pension Liability	$1,048,701
Current Discount Rate	7.15%
Net Pension Liability	$586,012
1% Increase	8.15%
Net Pension Liability	$204,069

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 6 – NET POSITION

Net Position is the excess of all SVACA's assets and deferred outflows of resources over all its liabilities and deferred inflows of resources, regardless of fund. 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 SVACA's capital 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 SVACA cannot unilaterally alter.

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

The Board of Directors has designated the amounts of unrestricted net position below for the purposes listed:

Designated	
Shelter Project	$338,855
Capital Project Improvement Fund	34,000
Operating Reserve Fund	197,968
Vehicle Replacement Fund	59,400
Reserve for Unknown Losses	15,849
Total	$646,072

NOTE 7 – CONTINGENT LIABILITIES

SVACA is subject to litigation arising in the normal course of business. In the opinion of SVACA's legal counsel there is no pending litigation which is likely to have a material adverse effect on the financial position of SVACA.

REQUIRED SUPPLEMENTARY INFORMATION

Silicon Valley Animal Control Authority - Miscellaneous Plan,
a Cost-Sharing Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2019
Last 10 Years*

SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS AS OF THE MEASUREMENT DATE

Measurement Date	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Plan's proportion of the Net Pension Liability	0.00561%	0.01252%	0.01406%	0.01524%	0.01555%
Plan's proportionate share of the Net Pension Liability	$349,247	$343,574	$488,291	$600,963	$586,012
Plan's Covered Payroll	$1,242,627	$1,271,997	$1,298,269	$1,336,816	$1,401,394
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	28.11%	27.01%	37.61%	44.95%	41.82%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	81.15%	79.89%	75.87%	75.39%	75.39%

Benefit changes. The figures above do not include any liability impact that may ave resulted from plan changes which occurred after June 30, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in assumptions. GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. In 217, the accounting discount rate reduced from 7.65% to 7.15%. In 2016 and 2018, (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts were based on the 7.5% discount rate. All other assumptions for the June 30,2014 measurement date were the same as those used for the June 30,2015 and 2016 measurement dates.

* Fiscal year 2015 was the 1st year of implementation. Additional years will be displayed as they become available.

Silicon Valley Animal Control Authority - Miscellaneous Plan,
a Cost-Sharing Multiple-Employer Defined Pension Plan
As of fiscal year ending June 30, 2019
Last 10 Years*

SCHEDULE OF CONTRIBUTIONS

For the Year Ended June 30	2015	2016	2017	2018	2019
Actuarially determined contribution	$117,101	$48,497	$111,023	$100,238	$455,423
Contributions in relation to the actuarially determined contributions	117,101	48,497	111,023	100,238	455,423
Contribution deficiency (excess)	$0	$0	$0	$0	$0
Covered payroll	$1,271,997	$1,298,269	$1,336,816	$1,401,394	$1,452,816
Contributions as a percentage of covered payroll	9.21%	3.74%	8.31%	7.15%	31.35%
Notes to Schedule					
Valuation date	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll
Remaining amortization period	15 Years as of the Valuation Date
Asset valuation method	Market Value of Assets
Inflation	2.75%
Salary increase	3.3% to 14.20% depending on Age, Service, and type of employment
Investment rate of return	7.50% for 2015 to 2018 7.375% for 2019, net of administrative expenses, includes inflation.
Retirement age	The probabilities of retirement and mortality are based on 2014 CalPERS experience study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale AA published by the Socitey of Actuaries.

* Fiscal year 2015 was the 1st year of implementation. Additional years will be displayed as they become available.

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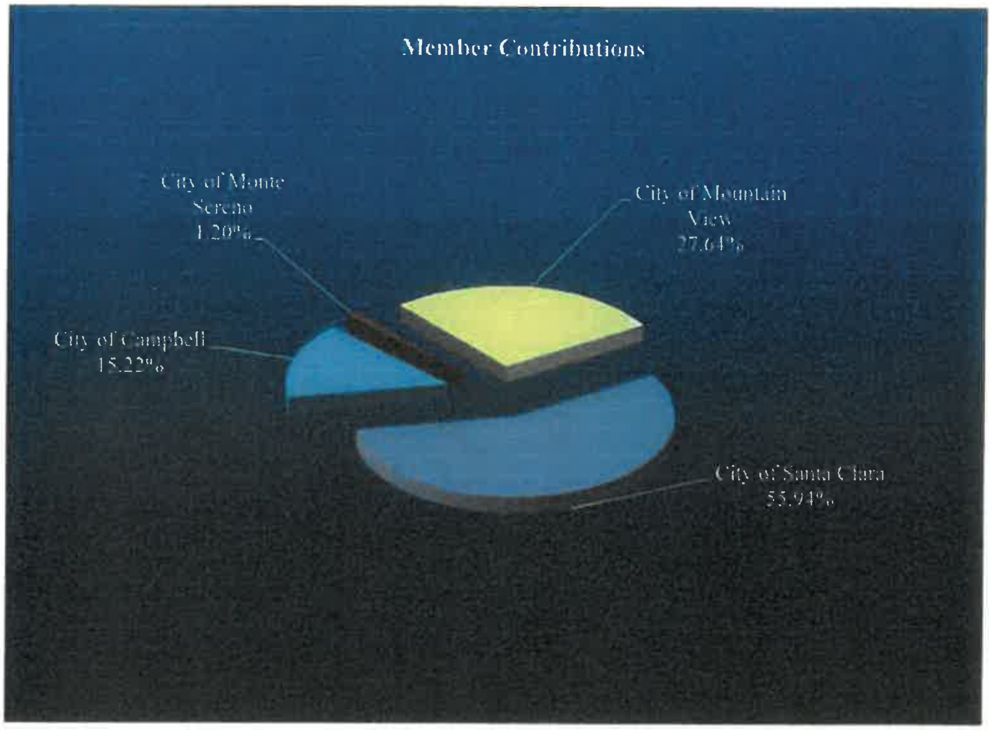
SUPPLEMENTAL INFORMATION

SILICON VALLEY ANIMAL CONTROL AUTHORITY
BUDGETARY SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Budget	Actual	Variance-Positive (Negative)
PROGRAM OPERATING REVENUES			
Member operating contributions	$1,878,156	$1,878,156	
Licensing	195,000	183,851	($11,149)
Less: Fees waived for Return to Owner Hardship Fund	(1,500)		1,500
Program fees	230,000	214,625	(15,375)
Miscellaneous		11,602	11,602
Total Operating Revenues	2,301,656	2,288,234	(13,422)
PROGRAM OPERATING EXPENSES			
Advertising	1,000	605	395
Bank service charges	18,000	36,917	(18,917)
Computer costs	10,600	5,540	5,060
Contract veterinarians	14,000	23,551	(9,551)
Wildlife Center contract	26,175	26,175	
Facility expenses:			
Utilities		91,360	(91,360)
Custodial service	26,000	26,188	(188)
Building maintenance	40,000	30,583	9,417
Other Facility expenses	85,000		85,000
Communications	17,900	11,355	6,545
Dues and subscriptions	2,000	2,830	(830)
Equipment expenses	11,500	7,324	4,176
Insurance	52,652	56,924	(4,272)
Supplies and miscellaneous	2,500	2,513	(13)
Postage/Shipping	8,000	5,395	2,605
Printing	3,000	282	2,718
Professional services	35,700	34,897	803
Salaries, wages and benefits	1,913,752	1,474,004	439,748
Stipend		53,584	(53,584)
Animal care	25,000	(707)	25,707
Vehicle expenses	20,000	46,355	(26,355)
Materials, services and supplies (MS&S)	14,000	9,347	4,653
Maddie's Pet Adoption Grant*		23,529	(23,529)
Depreciation		196,675	(196,675)
Total Program Operating Expenses	2,326,779	2,165,226	161,553
OPERATING INCOME (LOSS)	($25,123)	123,008	$148,131
NON-OPERATING REVENUES			
Animal Assistance Fund donations		1,196	
Interest income		45,889	
Net Non-Operating Revenues		47,085	
NET CHANGE IN NET POSITION		170,093	
NET POSITION AT BEGINNING OF YEAR		6,168,492	
NET POSITION AT END OF YEAR		$6,338,585	

* During Fiscal year 2013, SVACA received a $73,050 grant from Maddie's Fund Pet Adoption Days Grant. Grant-related expenditures of $53,584 were expended during fiscal year 2019 for operating expenses, and have been allocated on the Statement of Revenues, Expenses, and Changes in Net Position.

SILICON VALLEY ANIMAL CONTROL AUTHORITY
MEMBER OPERATING CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019



Members	Operating Contribution	Contribution Percentage
City of Campbell	$285,946	15.22%
City of Monte Sereno	22,540	1.20%
City of Mountain View	519,155	27.64%
City of Santa Clara	1,050,515	55.93%
Total	$1,878,156	99.99%

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SILICON VALLEY ANIMAL CONTROL AUTHORITY

MEMORANDUM ON INTERNAL CONTROL

FOR THE YEAR ENDED JUNE 30, 2019

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SILICON VALLEY ANIMAL CONTROL AUTHORITY
MEMORANDUM ON INTERNAL CONTROL

For the Year Ended June 30, 2019

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MEMORANDUM ON INTERNAL CONTROL

To the Board of Directors of
the Silicon Valley Animal Control Authority
Santa Clara, California

In planning and performing our audit of the basic financial statements of the Silicon Valley Animal Control Authority (SVACA) for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the SVACA's internal control over financial reporting (internal control) as a basis for designing our auditing 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 SVACA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SVACA'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 SVACA's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
March 2, 2020

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MEMORANDUM OF INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

EFFECTIVE FISCAL YEAR 2019/20:

GASB 84 – *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

MEMORANDUM OF INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 90 - *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61)*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

EFFECTIVE FISCAL YEAR 2020/21:

GASB 87 – *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

MEMORANDUM OF INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 87 – *Leases (Continued)*

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

GASB 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

EFFECTIVE FISCAL YEAR 2021/22:

GASB 91 – *Conduit Debt Obligations*

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

MEMORANDUM OF INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 91 – *Conduit Debt Obligations (Continued)*

A conduit debt obligation is defined as a debt instrument having *all* of the following characteristics:

- There are at least three parties involved:
  (1) an issuer
  (2) a third-party obligor, and
  (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

GASB 91 – *Conduit Debt Obligations (Continued)*

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

How the Changes in this Statement will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

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SILICON VALLEY ANIMAL CONTROL AUTHORITY

MEMORANDUM ON INTERNAL CONTROL

FOR THE YEAR ENDED JUNE 30, 2019

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SILICON VALLEY ANIMAL CONTROL AUTHORITY
MEMORANDUM ON INTERNAL CONTROL

For the Year Ended June 30, 2019

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MEMORANDUM ON INTERNAL CONTROL

To the Board of Directors of
the Silicon Valley Animal Control Authority
Santa Clara, California

In planning and performing our audit of the basic financial statements of the Silicon Valley Animal Control Authority (SVACA) for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the SVACA's internal control over financial reporting (internal control) as a basis for designing our auditing 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 SVACA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SVACA'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 SVACA's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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March 2, 2020

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MEMORANDUM OF INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments:

EFFECTIVE FISCAL YEAR 2019/20:

GASB 84 – *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

MEMORANDUM OF INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 90 - *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61)*

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

EFFECTIVE FISCAL YEAR 2020/21:

GASB 87 – *Leases*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

MEMORANDUM OF INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 87 – *Leases (Continued)*

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

GASB 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

EFFECTIVE FISCAL YEAR 2021/22:

GASB 91 – *Conduit Debt Obligations*

The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

MEMORANDUM OF INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

GASB 91 – *Conduit Debt Obligations (Continued)*

A conduit debt obligation is defined as a debt instrument having *all* of the following characteristics:

- There are at least three parties involved:
  (1) an issuer
  (2) a third-party obligor, and
  (3) a debt holder or a debt trustee.

- The issuer and the third-party obligor are not within the same financial reporting entity.

- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.

- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.

- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

GASB 91 – *Conduit Debt Obligations (Continued)*

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.

- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.

- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

How the Changes in this Statement will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognize assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations.

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