



**WEST VALLEY WATER DISTRICT
855 W. BASE LINE ROAD RIALTO, CA
PH: (909) 875-1804 FAX: (909) 875-1849**

**BOARD MEETING
AGENDA**

**THURSDAY, MARCH 5, 2020
CLOSED SESSION - 6:00 PM • OPEN SESSION – 7:00 PM**

BOARD OF DIRECTORS

**Channing Hawkins, President
Kyle Crowther, Vice President
Dr. Michael Taylor, Director
Greg Young, Director
Dr. Clifford Young, Director**

"In order to comply with legal requirements for posting of agendas, only those items filed with the District Secretary's office by noon, on Wednesday prior to the following Thursday meeting, not requiring departmental investigation, will be considered by the Board of Directors."

OPENING CEREMONIES

Pledge of Allegiance
Opening Prayer
Call to Order
Roll Call of Board Members

ADOPT AGENDA

PUBLIC PARTICIPATION

Any person wishing to speak to the Board of Directors on matters listed or not listed on the agenda, within its jurisdiction, is asked to complete a Speaker Card and submit it to the District Clerk. Each speaker is limited to three (3) minutes. Under the State of California Brown Act, the Board of Directors is prohibited from discussing or taking action on any item not listed on the posted agenda. Comments related to noticed Public Hearing(s) and Business Matters will be heard during the occurrence of the item.

Public communication is the time for anyone to address the Board on any agenda item or anything under the jurisdiction of the District. Also, please remember that no disruptions from the crowd will be tolerated. If someone disrupts the meeting, they will be removed.

PRESENTATIONS

1. Special District Leadership Foundation (Our Commitment to Excellence)
2. Earth Day Event Planning Update
3. Update on Building the District's New Website

CONSENT CALENDAR

All matters listed under the Consent Calendar are considered routine and will be enacted by one vote. There will be no separate discussion of these items unless a member of the Board of Directors, Staff Member, or any member of the public request a specific item(s) be removed for separate action.

Consideration of:

BUSINESS MATTERS

Consideration of:

1. Agreement to Complete Accounting Policies & Procedures Weakness Identified in FY18-19 Audit.
2. Merchant Services Agreement - OpenEdge.
3. WVWD FY18-19 CAFR.

REPORTS - LIMITED TO 5 MINUTES MAXIMUM (Presentations or handouts must be provided to Board Members in advance of the Board Meeting).

- **Board Members**
- **Legal Counsel**
- **General Manager**
 - ❖ 107 Days without a "Lost Time" claim.

UPCOMING MEETINGS

- March 7, 2020 - City of Rialto 2020 The State of Women at 9:00 AM-1:00 PM at the Grace Vargas Senior Center (1411 S. Riverside Ave., Rialto)
- March 9, 2020 - West Valley Water District Human Resources Committee Meeting at 6:00 PM at the District Headquarters
- March 10, 2020 - West Valley Water District Safety and Technology Committee Meeting at 6:00 PM at the District Headquarters
- March 11, 2020 - West Valley Water District Finance Committee Meeting at 1:00 PM at the District Headquarters
- March 11, 2020 - West Valley Water District Engineering, Operations and Planning Committee Meeting at 6:00 PM at the District Headquarters
- March 11-13, 2020 - ACWA Lower Colorado River Tour
- March 12, 2020 - West Valley Water District External Affairs Committee Meeting at 6:00 PM at the District Headquarters
- March 12, 2020 - ACWA Legislative Symposium in Sacramento, CA
- March 19, 2020 - West Valley Water District Board of Directors Meeting at 6:30 PM (Closed Session at 6:00 PM) at the District Headquarters
- March 17, 2020 - San Bernardino Valley Municipal Water District Regular Board Meeting at 2:30 PM at 380 E. Vanderbilt Way, San Bernardino, CA
- March 21, 2020 - Arrowhead Regional Medical Center 13th Annual 5K Walk/Run & Health EXPO. Registration begins at 7:00 AM/Race begins at 8:30 AM at the Arrowhead Regional Medical Center (400 N. Pepper Ave, Colton)
- March 24-26, 2020 - Imagine H2O Water Innovation Week 2020 Conference in San Francisco, CA

CLOSED SESSION

- CONFERENCE WITH LEGAL COUNSEL-ANTICIPATED LITIGATION Significant exposure to litigation pursuant to paragraph (2) of subdivision (d) of Section 54956.9: Number of Cases: Five (5)
- CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION Pursuant to Paragraph (1) of subdivision (d) of Government Code Section 54956.9 Case Name: Clifford Young, Patricia Romero, Naisha Davis, West Valley Water District v. Tafoya and Garcia, et al. Case No.: 19STCV05677

- PUBLIC EMPLOYEE PERFORMANCE EVALUATION Pursuant to Cal. Gov. Code Section 54957 Title(s):

General Manager,

General Counsel

ADJOURN

DECLARATION OF POSTING:

I declare under penalty of perjury, that I am employed by the West Valley Water District and posted the foregoing Agenda at the District Offices on March 2, 2020.



Crystal L. Escalera, Board Secretary

Please Note:

Material related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection in the District's office located at 855 W. Baseline, Rialto, during normal business hours. Also, such documents are available on the District's website at www.wvwd.org subject to staff's ability to post the documents before the meeting.

Pursuant to Government Code Section 54954.2(a), any request for a disability-related modification or accommodation, including auxiliary aids or services, in order to attend or participate in the above-agendized public meeting should be directed to Crystal Escalera, at least 72 hours in advance of the meeting to ensure availability of the requested service or accommodation. Ms. Escalera may be contacted by telephone at (909) 875-1804 ext. 704, or in writing at the West Valley Water District, P.O. Box 920, Rialto, CA 92377-0920.



**BOARD OF DIRECTORS
STAFF REPORT**

DATE: March 5, 2020
TO: Board of Directors
FROM: Clarence Mansell Jr., General Manager
SUBJECT: AGREEMENT TO COMPLETE ACCOUNTING POLICIES &
PROCEDURES WEAKNESS IDENTIFIED IN FY18-19 AUDIT

DISCUSSION:

West Valley Water District (the "District") engaged the audit firm of Pun Group to complete the annual audit of the District's financial position for the fiscal year ended June 30, 2019. At the completion of their audit the Pun Group identified noncompliances relating to the District's internal controls. To respond and correct these non-compliances, the CFO reached out to Accounting Firms (CPA's) requesting proposals to prepare an Accounting Manual which will incorporate policies and procedures that will correct the internal control weakness identified and update other accounting related policies in an effort to have better internal controls which will ultimately aid the district's mission to become more transparent.

Four firms were contacted during the week of February 24 and two responses were received. Staff has reviewed the two responses and proposes the Board awards a Professional Services Agreement to Rahban CPA & Consulting, Inc. based on the firm's experience and familiarity with similar projects with water districts and performing Accounting Manager and auditor duties. In addition to educational credentials and timely response I am confident that this firm will perform adequately.

FISCAL IMPACT:

Cost to prepare accounting policies and procedures is anticipated to be no more than \$25K without prior Board review and approval.

STAFF RECOMMENDATION:

Board of Directors to approve and award a Professional Services Agreement to Rahban CAP & Consulting, Inc. to perform services as described in the agreement and Task Order.

Respectfully Submitted,

Clarence C. Mansell Jr.

Clarence Mansell Jr, General Manager

SM

ATTACHMENT(S):

1. PSA -Accounting Policies Rhaban CPA
2. West Valley Water District Proposal
3. engagement letter West valley water district3



West Valley Water District

AGREEMENT FOR PROFESSIONAL SERVICES

With

RAHBAN CPA & CONSULTING, INC.

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AGREEMENT FOR PROFESSIONAL SERVICES

This AGREEMENT FOR PROFESSIONAL SERVICES (“Agreement”) effective as of this 5 day of March, 2020 (“Effective Date”) is by and between West Valley Water District (“District”) and Rahban CPA & Consulting, Inc. (“Consultant”). The District and Consultant may be collectively referred to as the “Parties” and individually as a “Party.”

RECITALS

A. The Parties desire to enter into this Agreement for the purpose of setting forth the terms and conditions upon which Consultant shall provide certain services to District.

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

Section 1. Term of Agreement.

(a) Subject to subsection (b) below, the term of this Agreement will be for a period of one (1) year commencing on the Effective Date and terminating one (1) year after the Effective Date.

(b) This Agreement shall renew automatically for continuous one (1) year periods for no more than two (2) additional years, unless either Party, prior to the end of the existing one (1) year period, delivers written notice to the other Party, that the Agreement shall not be extended.

Section 2. Scope and Performance of Services.

2.1 (a) District may, from time to time, by written instructions from the general manager or assistant general manager of the District (“Authorized Representative”) issue task orders (“Task Orders”) to the Consultant. The Task Order shall be in such form and content as shall be set forth on Exhibit “A” attached hereto and by this reference incorporated herein. The Task Order shall set forth: (i) the scope of services to be performed by Consultant; (ii) the compensation to be paid to Consultant; and (iii) the time to complete the Task Order. The provisions of this Agreement shall apply to all such Task Orders.

(b) For each Task Order, Consultant shall confer, as requested, with District representatives to review progress of work elements, adherence to work schedule, coordination of work, scheduling of review and resolution of problems which may develop.

2.2 Consultant will furnish all of the labor, technical, administrative, professional and other personnel, all supplies and materials, equipment, printing,

vehicles, transportation, office space and facilities, and all tests, testing and analyses, calculation, and all other means whatsoever, except as otherwise expressly specified in this Agreement, necessary or proper to perform and complete the services required of Consultant under this Agreement.

- 2.3** Consultant's designated representative(s) who are authorized to act on its behalf and to make all decisions in connection with the performance of services under this Agreement are listed in Exhibit "B" attached hereto and by this reference incorporated herein ("Key Personnel").
- 2.4** Consultant represents and warrants that it has the qualifications, experience and facilities necessary to properly perform the services required under this Agreement in a thorough, competent and professional manner. Notwithstanding Section 3 below, in the event Consultant utilizes the services of subcontractors or sub-consultants, Consultant assumes sole and complete responsibility for the performance of the subcontractor or sub-consultant to the specifications provided hereunder for Consultant's work, and no adjustment will be made to Consultant's requirements under this Agreement for timely completion of services, complete performance of services, or delivery of products or deliverables in a timely fashion, and no adjustment will be made to performance deadlines, or compensation due to Consultant, due to or arising from issues Consultant may have with any subcontractor or sub-consultant. Consultant will at all times faithfully, competently and to the best of its ability, experience and talent, perform all services described in this Agreement. In meeting its obligations under this Agreement, Consultant shall employ, at a minimum, generally accepted standards and practices utilized by persons engaged in providing services similar to those required of Consultant under this Agreement.

Consultant warrants it will perform its engineering and design under the Task Order, as more particularly described in Exhibit A ("Task Order") in accordance with the current standards of care and diligence normally practiced by recognized engineering and design firms in performing services of a similar nature. Further, Consultant warrants that the engineering and design performed has been performed in accordance with the then current standards of care and diligence normally practiced by recognized engineering and design firms in performing services of a similar nature. If within one (1) year after substantial completion of the engineering and design work it is shown that there is an error in that work as a result of the Consultant's failure to meet those standards and the District has notified the Consultant in writing of any such error within that period, Consultant shall re-perform such engineering and design work within the original scope of such services, as may be necessary to remedy such error. All costs incurred by Consultant in performing such corrective services shall be the sole responsibility of the Consultant and such costs shall not be reimbursable in any way.

Section 3. Additional Services and Changes in Services

- 3.1 Consultant will not be compensated for any services rendered in connection with its performance of this Agreement that are in addition to or outside of those set forth in the Task Orders, unless such additional services are authorized in advance and in writing by District.
- 3.2 If Consultant believes that additional services are needed to complete a Task Order, Consultant will provide the Authorized Representative with written notification describing the proposed additional services, the reasons for such services, and a detailed proposal regarding cost.
- 3.3 District may order changes to a Task Order, consisting of additions, deletions, or other revisions, and the compensation to be paid Consultant will be adjusted accordingly. All such changes must be authorized in writing, and executed by Consultant and District. The cost or credit to District resulting from changes in a Task Order will be determined by the written agreement between the Parties.

Section 4. Familiarity with Services and Site.

- 4.1 By executing this Agreement, Consultant warrants that Consultant shall, prior to undertaking a Task Order:
 - (a) investigate and consider the services to be performed;
 - (b) carefully consider how and within what time frame the services should be performed;
 - (c) understand the facilities, difficulties, and restrictions attending performance of the services under a Task Order; and
 - (d) possesses all licenses required under local, state or federal law to perform the services contemplated by a Task Order, and maintain all required licenses during the performance of such Task Order.
- 4.2 If services involve work upon any site, Consultant warrants that Consultant has or will investigate the site and will be fully acquainted with the conditions there existing, before commencing its services under a Task Order. Should Consultant discover any latent or unknown conditions that may materially affect the performance of services, Consultant will immediately inform District of such fact and will not proceed except at Consultant's own risk until written instructions are received from the District.

Section 5. Compensation and Payment.

- 5.1 Subject to any limitations set forth in this Agreement, District agrees to pay Consultant the amounts shown in a Task Order.
- 5.2 Each month during the existence of a Task Order, Consultant shall furnish District with an original invoice for all services performed and expenses incurred during the preceding month in accordance with the fee schedule set forth in the Task Order. The invoice must detail charges by the following categories: labor (by subcategory), reimbursable costs, subcontractor contracts and miscellaneous expenses. The invoice must list, as applicable, the hours worked and hourly rates for each personnel category, the tasks performed, the percentage of the task completed during the billing period, the cumulative percentage completed for each task, and the total cost of the services.
- 5.3 District will independently review each invoice submitted by Consultant to determine whether the work performed and expenses incurred are in compliance with this Agreement. In the event that no charges or expenses are disputed, the invoice will be approved and paid. In the event any charges or expenses are disputed by District, the original invoice will be returned by District to Consultant for correction and resubmission.
- 5.4 Except as to any charges for work performed or expenses incurred by Consultant that are disputed by District, District will use its best efforts to cause Consultant to be paid within thirty (30) days of receipt of Consultant's invoice.
- 5.5 No payment or partial payment to Consultant shall constitute acceptance of any work completed by Consultant or waive any claims by the District for any reason whatsoever.

Section 6. Required Documentation Prior to Performance.

- 6.1 Consultant will not perform any services under this Agreement until:
 - (a) Consultant furnishes proof of insurance ("Insurance") as required under Exhibit "C" attached hereto and by this reference incorporated herein; and
 - (b) Consultant provides District with a Taxpayer Identification Number.
- 6.2 The District will have no obligation to pay for any services rendered by Consultant in advance of receiving written authorization to proceed for each Task Order, and Consultant acknowledges that any such services are at Consultant's own risk.

Section 7. Project Documents.

- 7.1** All original maps, models, designs, drawings, photographs, studies, surveys, reports, data, notes, computer programs, files and other documents (collectively, "Project Documents") prepared, developed or discovered by Consultant in the course of providing services under this Agreement will become the sole property of District and may be used, reused or otherwise disposed of by District without the permission of Consultant. Consultant will take such steps as are necessary to perfect or protect the ownership interest of District in such Project Documents. Upon completion, expiration or termination of this Agreement, Consultant shall turn over to District all such original Project Documents in its possession; provided, however, that Consultant may retain copies of Project Documents.
- 7.2** Except as necessary for the performance of services under this Agreement, no Project Documents prepared under this Agreement, will be released by Consultant to any other person or entity without District's prior written approval. All press releases, including graphic display information to be published, must be approved and distributed solely by District, unless otherwise agreed to in writing by District.

Section 8. Consultant's Books and Records.

- 8.1** Consultant shall maintain any and all documents and records demonstrating or relating to Consultant's performance of services under this Agreement. Consultant shall maintain any and all ledgers, books of account, invoices, vouchers, canceled checks, or other documents or records evidencing or relating to work, services, expenditures and disbursements charged to District under this Agreement. Any and all such documents or records must be maintained in accordance with generally accepted accounting principles and must be sufficiently complete and detailed so as to permit an accurate evaluation of the services provided by Consultant under this Agreement. Any and all such documents or records must be maintained for three (3) years following the final payment for each Task Order.
- 8.2** Any and all records or documents required to be maintained by this section must be made available for inspection, audit and copying, at any time during regular business hours, upon written request by District or its designated representatives. Copies of such documents or records must be provided directly to District for inspection, audit and copying when it is practical to do so; otherwise, unless an alternative is mutually agreed upon, such documents and records must be made available at Consultant's address indicated for receipt of notices in this Agreement.

- 8.3** Where District has reason to believe that any of the documents or records required to be maintained by this section may be lost or discarded due to dissolution or termination of Consultant's business, District may, by written request, require that custody of such documents or records be given to a person or entity mutually agreed upon and that such documents and records thereafter be maintained by such person or entity at Consultant's expense. Access to such documents and records shall be granted to District, as well as to its successors-in-interest and authorized representatives.

Section 9. Status of Consultant.

- 9.1** Consultant is and will at all times remain a wholly independent contractor and not an officer or employee of District. Consultant has no authority to bind District in any manner, or to incur any obligation, debt or liability of any kind on behalf of or against District, whether by contract or otherwise, unless such authority is expressly conferred under this Agreement or is otherwise expressly conferred in writing by District.
- 9.2** The personnel performing the services under this Agreement on behalf of Consultant will at all times be under Consultant's exclusive direction and control. Neither District, nor any elected or appointed boards, officers, officials, employees or agents of District, will have control over the conduct of Consultant or any of Consultant's officers, subcontractors or sub-consultants, employees or agents, except as provided in this Agreement. Consultant warrants that it will not at any time or in any manner represent that Consultant or any of Consultant's officers, employees or agents are in any manner officials, officers, employees or agents of District.
- 9.3** Neither Consultant, nor any of Consultant's officers, employees or agents, will obtain any rights to retirement, health care or any other benefits which may otherwise accrue to District's employees. Consultant expressly waives any claim to any such rights or benefits.

Section 10. Compliance with Applicable Laws.

Consultant shall keep itself informed of and comply with all applicable federal, state and local laws, statutes, codes, ordinances, regulations and rules in effect during the term of this Agreement.

Section 11. Conflicts of Interest.

Consultant covenants that neither Consultant, nor any officer, principal nor employee of its firm, has or will acquire any interest, directly or indirectly, that would conflict in any manner with the interests of District or that would in any way hinder Consultant's performance of services under this Agreement. Consultant further covenants that neither Consultant, nor any officer, principal or employee of its firm will make, participate in the making, or in any way attempt to use the position of Consultant to influence any decision of the District in which Consultant knows or has reason to know that Consultant, or any officer, principal or employee of Consultant has a financial interest as defined in Government Code section 87103.

Section 12. Confidential Information; Release of Information.

- 12.1** All information gained or work product produced by Consultant in performance of this Agreement will be considered confidential to the full extent permitted by law, unless such information is in the public domain or already known to Consultant. Consultant shall not release or disclose any such information or work product to persons or entities other than District without prior written authorization from an Authorized Representative, except as may be required by law.
- 12.2** Consultant, its officers, employees, or agents, shall not, without prior written authorization from an Authorized Representative or unless requested by the District counsel, voluntarily provide declarations, letters of support, testimony at depositions, response to interrogatories or other information concerning the work performed under this Agreement. Response to a subpoena or court order will not be considered "voluntary" provided Consultant gives District notice of such court order or subpoena.
- 12.3** If Consultant, or any officer, employee, or agent of Consultant, provides any information or work product (including Project Documents) in violation of this Agreement, then District shall have the right to reimbursement and indemnity from Consultant for any damages, costs and fees, including attorneys' fees related to any unauthorized disclosure by consultant or, caused by or incurred as a result of Consultant's conduct.
- 12.4** Consultant shall promptly notify District should, Consultant, its officers, employees, or agents be served with any summons, complaint, subpoena, notice of deposition, request for documents, interrogatories, request for admissions or other discovery request, court order or subpoena from any party regarding this Agreement and the services performed under this Agreement. District retains the right, but has no obligation, to represent Consultant or be present at any deposition, hearing or similar proceeding. Consultant agrees to cooperate fully with District and to provide District with the opportunity to review any response to discovery requests provided by

Consultant. However, this right to review any such response does not imply or mean the right by District to control, direct, or rewrite such response.

Section 13. Indemnification.

Consultant covenants and agrees that, during the term of this Agreement, any injury suffered as a result of Consultant's services shall be the sole responsibility of Consultant and its successors and assigns and District shall not be liable to Consultant, or any other person or persons whatsoever for any such injury, loss or damage to persons or property unless caused by the negligence or intentional acts of District or its Representatives (as solely defined below). Consultant shall defend, indemnify and hold District, its officers, directors and Representatives ("District Indemnitees") harmless from and against any and all claims, costs, liabilities, debts, demands, suits, actions, causes of action, obligations, proceedings, damages, judgments, liens and expenses of whatever nature, including attorneys' fees and disbursements (collectively, "Claims") which may be made against the District Indemnitees arising out of or in connection with (a) the retention by District of Consultant's services; (b) the performance of or failure to perform, the work covered by this Agreement which is caused or occasioned by any act, action, neglect on the part of Consultant, or its Representatives, in the performance of this Agreement and the work to be done under this Agreement; (c) the death and/or injury to any person or damage to any property (real or personal) and/or economic loss which may be caused or is claimed to have been caused, by the negligence, act or omission of Consultant or its Representatives or its or their property; (d) any violation or alleged violation by Consultant of any law or regulation now or hereafter enacted; and (e) any breach by Consultant of its obligations under this Agreement. The foregoing indemnity shall not apply to the extent any such Claims are ultimately established by a court of competent jurisdiction to have been caused by the negligence or willful misconduct of the District Indemnitees or any of them. District shall make all decisions with respect to its representation in any legal proceeding concerning this section. If Consultant fails to do so, District shall have the right, but not the obligation, to defend the same and charge all of the direct or incidental Claims of such defense, including attorneys' fees and costs, to Consultant and to recover the same from Consultant. The term "Representatives" shall mean employees, representatives, agents, contractors, subcontractors or any other persons directly or indirectly employed by any one of the foregoing or reasonably under the control of any of the foregoing or for whose acts any of the foregoing may be liable.

Section 14. Insurance.

Consultant agrees to obtain and maintain in full force and effect during the term of this Agreement the Insurance coverages listed in Exhibit "C." All Insurance policies

shall be subject to approval by District as to form and content. These requirements are subject to amendment or waiver if so approved in writing by an Authorized Representative.

Section 15. Assignment.

- 15.1** The expertise and experience of Consultant are material considerations for this Agreement. District has an interest in the qualifications of and capability of the persons and entities that will fulfill the duties and obligations imposed upon Consultant under this Agreement. Consultant may not assign or transfer this Agreement or any portion of this Agreement or the performance of any of Consultant's duties or obligations under this Agreement without the prior written consent of District. The District can withhold its approval/consent in its sole and absolute discretion. Any attempted assignment will be null and void, and will constitute a material breach of this Agreement entitling District to any and all remedies at law or in equity, including summary termination of this Agreement.
- 15.2** Consultant must obtain District's prior written approval before utilizing any subcontractors to perform any services under this Agreement, which approval may be withheld in District's sole and absolute discretion. This written approval must include the identity of the subcontractor and the terms of compensation. Approval by District does not imply any agreement to or endorsement by the District as to the competency or capability of any proposed subcontractor or sub-consultant, and District reserves any and all rights against both Consultant and such subcontractor or sub-consultant, for any failure to perform or other breach of any of the provisions of this Agreement, or the standards of performance defined herein, and no waiver is intended or to be implied by District's approval of any subcontractor or sub-consultant.

Section 16. Termination of Agreement.

- 16.1** District may terminate this Agreement, with or without cause, at any time by written notice of termination to Consultant. In the event such notice is given, Consultant shall cease immediately all work in progress.
- 16.2** Upon termination of this Agreement, all property belonging exclusively to District which is in Consultant's possession must be returned to District. Consultant shall promptly deliver to District a final invoice for all outstanding services performed and expenses incurred by Consultant as of the date of termination. Compensation for work in progress not based on an hourly rate will be prorated based on the percentage of work completed as of the date of termination.

- 16.3** Consultant acknowledges District's right to terminate this Agreement as provided in this section, and hereby waives any and all claims for damages that might otherwise arise from District's termination of this Agreement.

Section 17. Notices.

- 17.1** All written notices required or permitted to be given under this Agreement will be deemed made when received by the other Party at its respective address as follows:

To District: West Valley Water District
855 West Base Line Road
P. O. Box 920
Rialto, CA 92377
Attention: Clarence C. Mansell, Jr.
General Manager

(Tel.) 909-875-1804
(Fax) 909-875-1849

To Consultant: Rahban CPA & Consulting, Inc.
10940 Wilshire Blvd., Suite 1600
Los Angeles, CA 90024
(424) 901-8361
srahban@rahbancpa.com

**** Please send all invoices by:**

Email: apinvoices@wvwd.org

or

*Mail: West Valley Water District
Accounts Payable
P.O. Box 190
Rialto, CA 92377*

- 17.2** Notice will be deemed effective on the date personally delivered or transmitted by facsimile. If the notice is mailed, notice will be deemed given three (3) days after deposit of the same in the custody of the United States Postal Service, postage prepaid, for first class delivery, or upon delivery if using a major courier service with tracking capabilities.

- 17.3 Any Party may change its notice information by giving notice to the other Party in compliance with this section.

Section 18. General Provisions.

- 18.1 **Authority to Execute.** Each Party represents and warrants that all necessary action has been taken by such Party to authorize the undersigned to execute this Agreement and to bind it to the performance of its obligations hereunder.
- 18.2 **Binding Effect.** Subject to Section 15, this Agreement is binding upon the heirs, executors, administrators, successors and assigns of the Parties, including any subcontractors or sub-consultants of Consultant.
- 18.3 **Entire Agreement.** This Agreement, including the attached Exhibits "A" through "C," is the entire, complete, final and exclusive expression of the Parties with respect to the matters addressed in this Agreement and supersedes all other agreements or understandings, whether oral or written, between Consultant and District prior to the execution of this Agreement.
- 18.4 **Modification of Agreement.** No amendment to or modification of this Agreement will be valid unless made in writing and approved by Consultant and approved in writing by the Board of Directors of the District, or in writing by the General Manager, if such power has been delegated to General Manager. The Parties agree that this requirement for written modifications cannot be waived and that any attempted waiver will be void.
- 18.5 **Facsimile Signatures.** Amendments to this Agreement will be considered executed when the signature of a Party is delivered by facsimile transmission. Such facsimile signature will have the same effect as an original signature.
- 18.6 **Waiver.** Waiver by any Party to this Agreement of any term, condition, or covenant of this Agreement will not constitute a waiver of any other term, condition, or covenant. Waiver by any Party of any breach of the provisions of this Agreement will not constitute a waiver of any other provision, or a waiver of any subsequent breach or violation of any provision of this Agreement. Acceptance by District of any services by Consultant will not constitute a waiver of any of the provisions of this Agreement.
- 18.7 **Interpretation.** This Agreement will be interpreted, construed and governed according to the laws of the State of California. Each Party has had the opportunity to review this Agreement with legal counsel. The Agreement will be construed simply, as a whole, and in accordance with its fair meaning, and without resort to rules regarding draftsmanship. It will not be interpreted strictly for or against either Party.

- 18.8 Severability.** If any provision of this Agreement shall be ruled invalid, illegal or unenforceable, the Parties shall: (a) promptly negotiate a substitute for the provisions which shall to the greatest extent legally permissible, effect the intent of the Parties in the invalid, illegal or unenforceable provision, and (b) negotiate such changes in, substitutions for or additions to the remaining provisions of this Agreement as may be necessary in addition to and in conjunction with subsection (a) above to give effect to the intent of the Parties without the invalid, illegal or unenforceable provision. To the extent the Parties are unable to negotiate such changes, substitutions or additions as set forth in the preceding sentence, and the intent of the Parties with respect to the essential terms of the Agreement may be carried out without the invalid, illegal or unenforceable provisions, the balance of this Agreement shall not be affected, and this Agreement shall be construed and enforced as if the invalid, illegal or unenforceable provisions did not exist.
- 18.9 Venue.** The Parties agree any action or proceeding to enforce or relating to this Agreement shall be brought exclusively in the federal court located in Riverside County, California or state court located in San Bernardino County, California and the Parties hereto consent to the exercise of personal jurisdiction over them by such courts for purposes of any such action or proceeding.
- 18.10 Disputes.** If any disputes should arise between the Parties concerning the work to be done under this Agreement, the payments to be made, or the manner of accomplishment of the work, Consultant shall nevertheless proceed to perform the work as directed by District pending settlement of the dispute.
- 18.11 Cooperation.** Consultant shall cooperate in the performance of work with District and all other agents.
- 18.12 Time of Essence.** Time shall be of the essence as to all dates and times of performance contained in this Agreement.
- 18.13 Counterparts.** This Agreement may be signed and delivered in any number of counter parts, each of which, when signed and delivered, shall be an original, but all of which shall together constitute one and the same Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed effective as of the day and year first above written.

DISTRICT:

**WEST VALLEY WATER DISTRICT,
a public agency of the State of California**

By _____
Clarence C. Mansell, Jr., General Manager

By _____
Crystal L. Escalera, Board Secretary

APPROVED AS TO FORM:

TAFOYA LAW GROUP, APC

By _____
Robert Tafoya

CONSULTANT:

By _____

Name : Sharon Rahban Navizadeh CPA, President

Rahban CPA & Consulting Inc

EXHIBIT A

TASK ORDER NO. 1

This Task Order (“Task Order”) is executed this 5 day of March, 2020 by and between West Valley Water District, a public agency of the State of California (“District”) and Rahban CPA & Consulting Inc (“Consultant”).

RECITALS

- A. On or about March 5, 2020 District and Consultant executed that certain Agreement for Professional Services (“Agreement”).
- B. The Agreement provides that the District will issue Task Orders from time to time, for the provision of certain services by Consultant.
- C. Pursuant to the Agreement, District and Consultant desire to enter into this Task Order for the purpose of setting forth the terms and conditions upon which Consultant shall render certain services to the District.

NOW, THEREFORE, THE PARTIES HERETO HEREBY AGREE AS FOLLOWS:

1. Consultant agrees to perform the services set forth on Exhibit “1” attached hereto and by this reference incorporated herein.
2. Subject to any limitations in the Agreement, District shall pay to Consultant the amounts specified in Exhibit “2” attached hereto and by this reference incorporated herein. The total compensation, including reimbursement for actual expenses, may not exceed the amount set forth in Exhibit “2,” unless additional compensation is approved in writing by the District.
3. Consultant shall perform the services described in Exhibit “1” in accordance with the schedule set forth in Exhibit “3” attached hereto and by this reference incorporated herein. Consultant shall commence work immediately upon receipt of a notice to proceed from the District. District will have no obligation to pay for any services rendered by Consultant in advance of receipt of the notice to proceed, and Consultant acknowledges that any such services are at Consultant’s own risk.
4. The provisions of the Agreement shall apply to this Task Order. As such, the terms and conditions of the Agreement are hereby incorporated herein by this reference.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have caused this Task Order to be executed effective as of the day and year first above written.

DISTRICT:

**WEST VALLEY WATER DISTRICT,
a public agency of the State of California**

Clarence C. Mansell Jr., General Manager

Crystal L. Escalera, Board Secretary

CONSULTANT:

Rahban CPA & Consulting, Inc.

By _____

Sharon Rahban Navizadeh

President

By _____

Name _____

Its _____

EXHIBIT “1”
TO
TASK ORDER NO. 1

SCOPE OF SERVICES

CREATE AN ACCOUNTING MANUAL

- Prepare Internal Control Procedures
 - Segregation of duties in the Accounting Systems
 - Contract Management – Procedures/Controls
 - Internal Control over Inventory
 - Bank Reconciliation
 - Payroll
 - Fixed Assets
- Prepare/Update the District’s Purchasing Policy
- Prepare/Update Travel Policy
- Prepare/Update credit use policy
- Prepare/Update Investment policy
- Prepare Delinquent Account procedures
- Prepare Debt, Budgeting, Reserve and Carryover Policy
- Prepare Fraud and Ethics Policy

EXHIBIT "2"
TO
TASK ORDER NO. 1

COMPENSATION

- 1) Sharon Rahban Navizadeh CPA Hourly Fee - \$135.00/Hour
- 2) Staff Accountant hourly Fee - \$75/Hour
- 3) Out-of-Pocket Expenses – At Cost, Receipts will be provided

All work and expenses shall be approved in advance by the Chief Financial Officer or the General Manager in his absence. A weekly work schedule shall be provided in advance of work. Weekly progress report shall be provided at the end of each week. Project shall be completed by June 1, 2020. Total project cost shall not exceed \$25,000 without prior approval of the Board.

4) EXHIBIT “3”**TO****TASK ORDER NO. 1****SCHEDULE**

To be determined in consultation with the Chief Financial Officer or General Manager in his absence. Project shall be completed by June 1, 2020.

EXHIBIT B**KEY PERSONNEL**

Consultant's designated representative(s) who are authorized to act on its behalf and to make all decisions in connection with the performance of services under this Agreement are:

Sharon Rahban Navizadeh, President

Marlene Gamarro, Staff Accountant

Dieudonne Wankwe, Staff Accountant

EXHIBIT C
INSURANCE

INSURANCE

A. **General Requirements.** Before commencing the performance of services under this Agreement, and at all other times this Agreement is effective, Consultant must procure and maintain the following types of insurance with coverage limits complying, at a minimum, with the limits set forth below:

<u>Type of Insurance</u>	<u>Limits (combined single)</u>
Commercial General Liability:	\$1,000,000
Business Automobile Liability	\$1,000,000
Professional Liability	\$1,000,000
Workers Compensation	Statutory Requirement

B. **Commercial General Liability Insurance.** The amount of insurance set forth above must be a combined single limit per occurrence for bodily injury, personal injury, and property damage for the policy coverage. The insurance must be on an “occurrence” not a “claims made” basis.

C. **Business Automobile Insurance.** Automobile coverage must be written on forms subject to the written approval of District.

D. **Professional Liability Insurance.** This coverage must be on an “occurrence” basis, including coverage for contractual liability. The Professional Liability Insurance required by this Agreement must be endorsed to be applicable to claims based upon, arising out of or related to services performed under this Agreement.

E. **Workers Compensation.** Consultant must have a State of California approved policy form providing the statutory benefits required by law with employer’s liability limits of no less than \$1,000,000 per accident for all covered losses, or Consultant must provide evidence of an approved self-insurance program.

F. **Additional Insureds.** Each Commercial General Liability Insurance policy and Business Auto Insurance policy must provide that the District, its officials, officers, employees, agents and volunteers are “additional insureds” under the terms of the policy, and must provide that an act or omission of one the insureds will not reduce or avoid coverage to the other insureds.

G. **Deductibles and Self-Insured Retention.** Any deductibles or self-insured retentions applicable to the insurance policies required under this Agreement must be declared to and approved by District. In no event may any required insurance policy have a deductible, self-insured retention or other similar policy provision in excess of \$50,000 without prior written approval by District in its sole discretion. At the option of District, either the insurer will reduce or eliminate such deductibles or self-insured retentions with respect to the District’s additional insureds or Consultant will procure a bond guaranteeing payment of any losses, damages, expenses, costs or settlements up to the amount of such deductibles or self-insured retentions.

- H. **Primary Insurance.** Each of the insurance policies maintained by Consultant under this Agreement must state that such insurance will be deemed “primary” so that any insurance that may be carried by District will be deemed excess to that of Consultant. This endorsement must be reflected on forms as determined by District.
- I. **Certificates of Insurance and Endorsements.** Prior to commencing any services under this Agreement, Consultant must file with the District certificates of insurance and endorsements evidencing the existence of all insurance required by this Agreement, along with such other evidence of insurance or copies of policies as may reasonably be required by District. These certificates of insurance and endorsements must be in a form approved by the Legal Counsel. Consultant must maintain current certificates and endorsements on file with District during the term of this Agreement reflecting the existence of all required insurance. Each of the certificates must expressly provide that no material change in the policy, or termination thereof, will be effective except upon 30 days’ prior written notice to District by certified mail, return receipt requested. The delivery to District of any certificates of insurance or endorsements that do not comply with the requirements of this Agreement will not waive the District’s right to require compliance.
- J. **Insurance Rating.** All insurance required to be maintained by Consultant under this Agreement must be issued by companies licensed by or admitted to conduct insurance business in the State of California by the California Department of Insurance and must have a rating of A or better and Class VII or better by the latest edition of A.M. Best’s Key Rating Guide.
- K. **Aggregate Limits.** The aggregate limits for each insurance policy required under this Agreement must apply separately and solely to the services performed under this Agreement. If the required policies do not have an endorsement providing that the aggregate limit applies separately to the services being performed, or if defense costs are included in the aggregate limit, then the required aggregate limits must be increased to an amount satisfactory to District.
- L. **Waiver of Subrogation Rights.** Consultant and each insurer providing any insurance required by this Agreement must waive all rights of subrogation against District, its officials, officers, employees, agents and volunteers, and each insurer must issue a certificate to the District evidencing this waiver of subrogation rights.
- M. **Failure to Maintain Required Insurance.** If Consultant, for any reason, fails to obtain and maintain the insurance required by this Agreement, District may obtain such coverage at Consultant’s expense and deduct the cost of such insurance from payments due to Consultant under this Agreement or may terminate the Agreement.
- N. **Effect of Coverage.** The existence of the required insurance coverage under this Agreement shall not be deemed to satisfy or limit Consultant’s indemnity obligations under this Agreement. Consultant acknowledges that the insurance coverage and policy limits set forth in this Agreement constitute the minimum coverage and policy limits required. Any insurance proceeds available to District

in excess of the limits and coverage required by this Agreement, and which is applicable to a given loss, must be made available to District to compensate it for such losses.

WEST VALLEY WATER DISTRICT
REQUEST FOR STATEMENT
OF QUALIFICATIONS FOR
FINANCIAL POLICY PREPARATION

FROM:

*RAHBAN CPA &
CONSULTING, INC.*



Rahban CPA & Consulting Inc.
Sharon Rahban Navizadeh
Owner/President
10940 Wilshire Blvd., Suite 1600
Los Angeles, CA 90024
T: (424) 901-8361
C: (310) 801-4588
F: (866) 339-4109
srahban@rahbancpa.com

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SECTION 1: COVER LETTER

To the RFQ Review Committee:

Thank you for taking the time to include our firm in the RFQ process for Financial Policy services. We look forward to sharing our knowledge, skills, and abilities with you in regards to these services, as well as any other financial project you may need assistance with in the future.

Rahban CPA & Consulting, Inc. is a small size S-Corporation, which was established in 2013 by founder and owner Sharon Rahban Navizadeh, CPA. The firm’s make up includes the owner and five employees. Our firm retains a deep understanding of the needs facing local government finance officers. Coming from an extensive background in governmental financial management, accounting, and audit, the owner of Rahban CPA and Consulting Inc, Sharon Rahban Navizadeh CPA, is in a unique position to be able to provide recommendations on a wide array of financial topics. With over 15 years of experience, our acuity and passion for adding value to our client’s organizations do not fade or stop short at merely immediate uses. All recommendations will take into consideration long-term service expectations, ease of training for staff, and ease for recording future financial transactions.

Engaging with a partner such as Rahban CPA & Consulting will provide you with the solid experience and expertise to maintaining a continuous level of excellence with financial statement preparation as well as useful financial operation recommendations.

We would like to thank you so much for your consideration. Please feel free to contact us at (424) 901-8361

Sincerely,
Sharon Rahban Navizadeh CPA

SECTION 2: FIRM OVERVIEW

COMPANY NAME: Rahban CPA & Consulting Inc.

COMPANY ADDRESS: 10940 Wilshire Blvd., Suite 1600 Los Angeles, CA 90024

TELEPHONE: (424) 901-8361

FAX: (866) 339-4109

The expertise of this firm resides in its **detailed knowledge of the financial, accounting, and reporting needs of local governments**, as well as the means to implement efficiency creating tools for the firm’s clients. We understand that time is of the essence for local government finance officers. That is why every project and recommendation provided by our firm includes investments made for future benefits as well as for immediate uses. Other firms that do not possess our detailed knowledge and experience may not be able to deliver **beyond** providing accounting pronouncement interpretations. The current climate for governmental finance requires CPA’s to acknowledge and deliver efficient services on all facets of the accounting and reporting cycle.

We know your time is important to you, and therefore, our work includes a commitment to strategic, multi-pronged success and we have the experience to prove it.

WE ARE LOCAL:

In regards to assistance with financial policy preparation services, we are locally available for training on an as-needed basis. We will be on site to deliver these services because we recognize that in order for training material to get absorbed properly, there can be **no substitute for being there in person**. Further, in order to make optimal internal control recommendations we will be there to collect and perform the appropriate information and testing, respectively.

TURN-AROUND RESPONSE TIME:

We anticipate the turn-around response time to inquiries from your agency to be 24 hours.

STAFF INFORMATION:

Sharon will be the primary individual in charge of the day-to-day responsibility for this engagement.

Sharon Rahban, a native of Los Angeles, California, obtained her CPA license from the State of California in January of 2006. Included in her studies as a double major from the University of California at Berkeley, in the fields of Applied Mathematics, and Economics, Sharon also excelled in the fields of Financial Accounting and Auditing. After graduating from the University of California, Sharon began her career in public accounting and went onto become a Senior Auditor at the firm of Macias, Gini, and O’Connell whose clients ranged from Public Sector, Non-profit, Private, and Publicly Traded firms. Sharon’s knowledge and

experience propelled her to then focus her efforts in public service at the prestigious municipality of the City of Beverly Hills, CA.

For the next eight and a half years, Sharon shined as the Accounting Manager for the City of Beverly Hills, winning **annual awards** for Excellence in Financial Reporting, as well as creating value for the organization on a continuous basis. In 2012 Sharon was a guest lecturer at the Governmental Finance Officers Association annual conference in Chicago, IL for her successful early implementation of GASB Statement No. 54. Sharon's experience spans over 15 years. Sharon is a current member of the AICPA, California Society of CPAs, Governmental Finance Officers Association, California Society of Municipal Finance Officers, and the Cal Alumni Association.

SECTION 3: RANGE OF SERVICES & EXPERIENCE

SECTION 3A RANGE OF SERVICES

WE OFFER A WIDE RANGE OF SERVICES:

Our website boasts a long list of services and we do all of these services methodically, with transparency, and with the support to withstand outside challenges.

If desired, a wider list of services is available at the following website: <http://www.rahbancpa.com/services.html>

Further, please note that since our firm does not offer audit services, we will never have a conflict of interest in working with you. Other CPAs who offer audit services can create a real or perceived conflict of interest if they propose on audit services for your organization. This situation can create devastating impacts.

Additionally, not only will we provide assistance with financial policy preparation, we will also assist with implementing Government Finance Officer Association (GFOA) CAFR comments and audit management letter comments if any.

SAMPLE BENEFITS YOU WILL RECEIVE FROM OUR FIRM:

- *Internal control considerations, policy, procedure, and journal entry template preparation, training and dissemination*
- *Staff training for Finance and Non-finance professionals*
- *Efficient communication tools that can be used to gather information from all departments*
- *Chart of account and financial statement design recommendations*
- *Finance software reporting recommendations*

SECTION 3B WEALTH OF RELEVANT EXPERIENCE

CITY OF BEVERLY HILLS, CA – INCLUSIVE OF 4 ENTERPRISE FUNDS

For over eight years, (from 2005 to 2014) Sharon held the position of Accounting Manager for the City of Beverly Hills (City). Her work there not only held up to the City's standard of being the Best of the Best, but was also rewarded every year with the Government Finance Officers Association (GFOA)'s award for Excellence in Financial Reporting. Sharon was also the recipient of numerous letters of recommendation from GFOA, City Mayors, and the City Manager, just to name a few.

In addition to the accomplishments mentioned on Sharon's attached resume, other relevant work done for the City of Beverly Hills from the period of 2005 to 2014 includes:

- Reviewed ALL grant contracts approved for the City and implemented all financial controls to ensure seamless grant audits,
- Has videotaped lectures on Grant Audit Pitfalls, The Appropriation Process 101, and Corporate Purchase card Use and Accountability. These were and continue to be available for use to train finance and non-finance staff,
- Written policies and procedures on the topics of: Grants, Donations, Disaster related accounting procedures, Travel forms, Capital Asset Policy, Corporate Card Usage and Accountability Policy, Fiscal year end policies and procedures, and Budget carryover policies and procedures
- Provided a detailed review, correction, and organization of ALL existing City fixed asset (including infrastructure and intangible assets) and accumulated depreciation records. During Sharon's preparation of the City's Comprehensive Annual Financial Report (CAFR) yearly, the fixed asset review and record organization was done by Sharon to ensure accurate and complete records were being used to prepare the City's CAFR.

Some of the GASB and FASB pronouncements implemented exclusively by Sharon include the following:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- FASB Statement No. 34, *Capitalization of Interest Cost*

CITY OF BEVERLY HILLS, CA – SOFTWARE CONVERSION

From 2012 to 2014, Sharon was instrumental in the implementation of Tyler Munis for the City of Beverly Hills. As the Accounting Manager for the City from 2005 to 2014, Sharon had in-depth knowledge of all City departments’ needs and uses for the software. This includes the following departments: Finance, Human Resources, Payroll, Police, Fire, Rec and Parks, Public Works, City Clerk, the City Manager’s Department and many more...

OTHER SOFTWARE CONVERSION SERVICES

In addition to the many project management services provided to the City of Beverly Hills for the Tyler Munis Implementation, the following is a list of other services provided during the Munis Implementation:

- Complete Chart of Account design and creation for general ledger, cashiering, and A/R charge codes; also affecting the project ledger, fixed asset module, CAFR module, Grants module,
- Design of Accounts Payable and Purchase Order form kits within the software
- Developed a plan for integration of Tyler Munis software with other software that was already being used as City subledgers
- Designed and created all data access and menu access roles for all City employees within the software
- Designed and created workflow programming to take advantage of the software’s workflow feature
- Performed SSRS report programming and compilation for needed reports that did not already exist as canned reports within the software
- Took advantage of the software’s internal report writer (different from SSRS which is external) to create additional needed reports that did not already exist within the software
- Performed static environment testing within the software
- Maintained a list of where/when Tyler Munis failed to function, failed to meet asserted internal control or GASB standards, and used list for negotiations

CITY OF RIALTO, CA – INCLUSIVE OF ENTERPRISE FUNDS

During 2019, we were contracted for assisting with year-end planning and audit preparation.

- We prepared a final report of all recommendations to make to staff roles and responsibilities when preparing the bank reconciliation, and related journal entries.
- We performed bank reconciliations and prepared adjusting journal entries for each month within the Fiscal Year 2017 - 2018 and Fiscal Year 2018 – 2019.

- Reviewed and made recommendations on whether or not to approve journal entries prepared by accounting staff
- Made recommendations on how to prepare proper back-up documentation for journal entries

CENTRAL CONTRA COSTA SANITARY DISTRICT, CA – ENTERPRISE FUND ENTITY

During 2019, we were contracted to prepare and design a new chart of accounts for their imminent finance software conversion. We reviewed the District’s CAFR, Budget, Board Reports, State Controllers Report, new GASB standards, etc... to ensure the new chart of accounts is effective and efficient for accounting and reporting purposes in all aspects of use.

CITY OF NORWALK DEPARTMENT OF TRANSPORTATION

This is a current engagement. We are assisting the City of Norwalk with reconciling their inventory records as well as preparing a report of recommendations and procedures for properly accounting for inventory that will cover the entire inventory cycle for parts purchased and used on City vehicles. This will also include recommendations on how to best utilize the inventory software and its communication with the general ledger. During this engagement we have identified pitfalls within the existing inventory cycle that are currently causing inefficiencies and ineffectiveness, and have recommended policies and procedures to remedy those pitfalls.

BEVERLY HILLS CONFERENCE & VISITORS BUREAU

In 2018, we took over the bookkeeping for Beverly Hills Conference and Visitor’s Bureau (the CVB), a not-for-profit organization which acts as the City’s arm for attracting tourists and visitors to the City of Beverly Hills.

We are currently engaged to prepare for this entity, a set of financial policies for this entity which will include the topics of proper internal controls, Budgeting, General Accounting, the process and controls surrounding the Expenditure Cycle and the Revenue Cycle, Investment policy, Fixed Assets, Inventory, and more.

Thus far, during this engagement, we have made numerous recommendations to improve financial reporting and recording of transactions such as implementing a correct inventory valuation process, differentiating between Cash Basis reporting and Accrual basis reporting, and making recommendations to improve cash handling.

We recommended daily cash register balancing and deposit slip preparation, a dual custody process for handling cash receipts, and how to properly document deposits being made to the bank. These

improvements were implemented and are still in use currently. These recommendations assisted the CVB reduce the risk of fraud when handling cash.

Other recommendations made, which were implemented include:

- Safeguarding unused check stock and implementing Positive Pay banking services– Previously unused check stock was unlocked and susceptible to theft. Further, the CVB ran the risk of check fraud since they did not have positive pay services. We made recommendations and assisted with the implementation of the positive pay services. After implementing the recommendations, the CVB has greatly reduced its risk for check fraud.
- Corporate Credit/Purchase Card usage and accountability. We recommended that in order to make sure all credit card charges were accounted for, that each line item on their credit card statement would need to have account coding and dual signature approval before making the credit card payment. This is currently being implemented successfully.

CITY OF BRADBURY, CA

We were contracted with the City of Bradbury from March to May of 2016 to perform a GASB 34 Infrastructure Valuation on all City owned infrastructure. During this engagement, we provided the following in addition to performing a full valuation:

- A depreciation schedule for all City infrastructure, land, and building assets that could be rolled forward annually, and used to continuously track all additions, deletions, transfers, work in progress, and accumulated depreciation.
 - The schedule further provided all necessary information for the City’s Capital Asset Footnote tables.
- Recommendations on determining historical value of land underneath public roads that were inappropriately never recorded as City owned land
- Recommendations on assigning useful lives for various infrastructure assets

PAST LOCAL GOVERNMENTAL AUDIT EXPERIENCE AT MACIAS, GINI, & OCONNELL

Between 2002 and 2005, Sharon worked as an auditor at the firm of Macias, Gini & O’Connell. Sharon’s clients ranged from all types of local governmental agencies, as well as not-for-profits and private clients. Some recommendations that Sharon made to clients include:

- At San Francisco Community College District – Sharon recommended the need for significantly improved documentation for employee salary changes that could support the salaries being reported on the District’s payroll register
- At Santa Clara Valley Water District – Sharon recommended that the Personnel Action Form, used to record changes in employee status or pay-rate, should not contain a pre-populated budget amount of 1,000 hours. When not reviewed properly, the data entry that results from this form could lead to incorrect payment amounts for employees during the payroll process, which was discovered by Sharon during the internal control portion of the entity’s audit.
- Also at Santa Clara Valley Water District – Sharon recommended that accounting staff thoroughly and routinely review board-meeting minutes to account for transactions that other departments would not communicate to them voluntarily. This recommendation was made after Sharon discovered that the District had not recorded the value of land and right-of-ways acquired during operations, but that the transactions were mentioned during the Board meeting minutes

SECTION 3C RESUME

SHARON M. RAHBAN NAVIZADEH C.P.A.

602 N. Bedford Dr. • Beverly Hills, CA 90210 • Tel (310) 801.4588 • srahban@rahbancpa.com

PROFESSIONAL EXPERIENCE

RAHBAN CPA & CONSULTING, INC.

Los Angeles, CA

Owner/President

(12/2013 – Present)

- Designed, planned, and executed various financial management & consulting projects including Banking RFP Evaluation, GASB 34 Infrastructure Valuation, Year-End closing and bank reconciliation assistance.
- Discovered, planned, and performed investigation of fraudulent transactions, questioned costs, and money laundering scheme, approximating \$30 million, as well as provided litigation support services
- Lecturer at CSMFO 2019 annual conference and at meetings for Central Valley and Channel Island chapters
- Author of published article in CSMFO’s September 2015 Mini News, published again in April 2017 GFOA Magazine

CITY OF BEVERLY HILLS

Beverly Hills, CA

Accounting Manager

(11/05 – 5/14)

- Managed and mentored 14 people under: Payroll, Accounts Receivable, Accounts Payable, Purchasing, and general ledger accounting duties, as well as ensured all City financial transactions were properly accounted for and reported;
- Made annual presentations to City Council after completing the Comprehensive Annual Financial Report (CAFR) answering questions from Councilmembers as well as from the Audit Committee
- Directed and/or supervised preparation of the State Controllers Report, Street Report, Quarterly Treasurer’s report, City investment reconciliation, bond payments, and draws from bond proceeds used to fund capital projects
- Prepared financial information for the Official Statement for the City’s two bond offerings totaling \$45M during 2012, as well as answered questions from bond rating agencies, ensuring the City’s AAA bond rating
- Created, implemented, and monitored the City’s corporate purchase card program, used by all City departments
- Created and implemented the following City policies: Capital Asset Accountability, Emergency Cash Handling, Donations Acceptance, Grants Financial Handling, and the Accountability of the City’s Corporate purchase card
- Made recommendations to the CFO for directing budget surpluses to fund rising long-term liabilities
- Emergency Operations Center Finance Section Chief since 2005, supervising a staff of 12
- Created a career path and rotating cross-training duties for the Accounting, Payroll, and A/P divisions
- Uncovered a software design error in the City’s business tax software, and prevented posting of faulty data to the G/L
- Formulated a special report which resulted in cutting 10 hours per week of staff-time (checking for vendor insurance needed to issue payments) down to a 5 minute procedure
- Coordinated, monitored, and represented the City during the City’s annual financial audits and all grant audits
- Prevented the City from obtaining a \$750,000 audit penalty during a State Controller audit of street expenditures
- Reduced the time to complete a City bank reconciliation, from 10 days down to 1 day; Avg \$50m transactions per month
- The first person amongst all of our auditor’s clients to implement successfully GASB 45, *Other Post Employment Benefits (OPEB)*, GASB 44, *The New Statistical Section*, and GASB 54, *Fund Balance Reporting*, in the CAFR
- Instrumental in the implementation of the City’s new finance software by designing the chart of accounts, internal control menu access, data access, custom reports, module set up, and workflow programming. Directed the Change Management Team by addressing concerns between Department heads, Tyler, and City staff; Directed testing of modules to search for optimal City implementation
- Critiqued the financial statements of prospective City tenants and commented on inconsistencies shown therein, helping to ensure the financial health of new City tenants

MACIAS, GINI, AND O’CONNELL

Los Angeles, CA

Senior Auditor

(8/02 – 3/05)

- Planned and participated in financial statement audits, Single audits, and other attestation engagements
- Recommended improvements to the functionality and efficiency of internal controls to audit and consulting clients
- Obtained experience with a range of audit clients, such as: governmental, non-profit, as well as publicly traded

EDUCATION, LICENCES, AND AWARDS

- University of California at Berkeley, Bachelor of Arts
Double major: Economics & Applied Mathematics Berkeley, CA
(8/97 – 5/02)
- Lecturer at GFOA’s annual national conference on early implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (6/12)
- Annual winner of the GFOA Certificate of Achievement for Excellence in Financial Reporting (2005 – 2013)
- Member of AICPA, California Society of CPAs, Government Finance Officers Association (GFOA), California Society of Municipal Finance Officers (CSMFO), and Cal Alumni Assoc’n
- Certified Public Accountant (California, Florida, and Nevada); CA Certificate No: CPA 93957 (1/06 – Present)

Genney Marlenne Gamarro

5052 Kester Ave Apt. 3 Sherman Oaks, CA 91403
 (310) 872-9058 marlenne0921@gmail.com

PROFESSIONAL EXPERIENCE

Rahban CPA & Consulting, Westwood, CA— Staff Accountant Mar. 2017 – PRESENT

- Handled all aspects of accounting functions for different organizations including Governmental, Non-Profit and Business of all sizes both for Financial and Tax assistance. Managed accounting for several entities.
- Duties included but not limited to Accounts Receivables, Account Payables, Revenue Recognition, Cost allocation, Monthly Bank Reconciliation and Month end Closing, adjusting journal entries, fixed asset listing, valuation and depreciation, general ledger reviews and analyzation of balance sheet and income statement accounts.
- Reconciliation of Loans Receivables, SEFA & Sate grants. Lead in preparing the new Fiscal Year’s Budget for some clients.
- Prepare complex documents and reports such as financials statements, balance sheets, cash-flow, budgets and account reconciliation to meet Finance Committee/ Board members/Owner’s requirements. Perform financial, variance, and budget analysis reports.
- Indicated areas of improvement such as organization and accessibility of office records and reports for ease for stakeholder access.
- Prepare and submit Quarterly Sales Tax returns, Property taxes to the State, and provide assistance with preparing yearly tax returns. In charge of preparing the annual 1099 filing project and W9 retrieval.
- Audit payroll transactions and implementation of new payroll process. Prepared reports for taxes, worker’s comp insurance, and other.
- Implementation of banking Positive Pay feature & lockbox services for greater efficiency in the revenue cycle & preparing bank recs.
- Create and/or Restructured both new or existing chart of accounts to have efficiency and better transparency with reporting.
- Set up chart of accounts to work efficiently with new software. Part of implementing multi-module accounting software.
- Assist with Governmental Bank Reconciliation for past fiscal years. Helped produce corrected trial balances, adjusting journal entries and year end reconciliations. This included reconciling cash receipts, cash disbursements, outstanding checks, wires, investment transactions.
- Fixed Asset Valuation for Governmental entities. Fixed Assets previously worked in include but not limited to sewers, roads/pavement, water tanks, pumps, pipes, vehicles, computers, furniture, among other.
- Conducted thorough review of all applicable documentation to help value the assets such as district CAFR workpapers, Insurance documentation, maps of the city/area, construction documents provided by the City or City Engineer, or Assessments to recognize all assets owned by the City and to complete the fixed asset listing.
- Prepare fixed asset detail list by updating asset information. Review of assessment to match existing fixed assets and adding assets by recognizing assets not previously recorded or listed.
- Determine replacement cost, which assets need to be valued or which have missing information needed for master fixed asset listing and retrieve any other missing information needed to evaluate the assets.
- Assist in valuating fixed assets. Prepare roll forward schedule and year end asset information and depreciation. Prepare standardized depreciation templates, policies and procedures for City to use to help increase overall efficiency and accuracy.
- Suggest a new chart of accounts for fixed asset class and sub-class categories. Sort master listing by asset class and subclass and assign new asset number. Provide asset tagging services to be consistent with software parameters for possible future use of fixed asset module.

Elite Medical Center, Beverly Hills & Torrance, CA — Office Manager May. 2014 – Jun. 2017

- *Managed the daily operations of several medical Offices. (Urgent Care, Medical Cosmetic Center and Evaluation Center).*
- *In charge of recruiting, interviewing, hiring and scheduling physicians, medical assistants, front office staff and medical interns.*
- *Directed staff orientations, trainings, ongoing staff development, performance appraisals, disciplinary actions and staff meetings.*
- *Designed and implemented office policies and protocols by establishing standards and procedures in conjunction to medical protocols.*
- *Created new patient and doctor forms to mirror EMR software to facilitate the recording of patient’s personal and medical information.*
- *Created Employee Handbook, Physician procedures handbook, HR documents and contracts. Advised & trained physicians and staff on how to properly utilize healthcare software to streamline business operations and hold all financial and clinical personnel accountable for transactions. Created and implemented process to reconcile daily revenues. Took the task as primary troubleshooter on the system.*
- *Accounts Payable- Managed the processing of all invoices in an accurate and timely manner per month for each company.*
- *Accounts Receivable- timely posted payments from patients and insurance companies. (PPO, Tricare, and Workers Comp).*
- *Tabulated employee timecards and prepared biweekly payroll. Weekly reconciliation of office accounts with Owner of the businesses.*
- *Responsible for ordering and maintaining inventory of medications, medical equipment and office supplies.*
- *Performed daily preventative maintenance, troubleshooting breakdown on software and other medical supplies (when necessary).*

Superior Staffing Agency, Long Beach, CA — Staffing Recruiter Mar. 2013 – Nov. 2013

- *Determined applicant qualifications by interviewing, analyzing responses; verifying references; comparing qualifications to requirements.*
- *Coordinated applicant placement with prospective employers. Interfaced with employer to evaluate applicant performance and attendance*
- *Managed intern program by conducting orientations; scheduling rotations and assignments; coaching interns; Tracked employee hours and verified with employers for payment. Accomplished HR and organization mission by completing related results as needed.*

EDUCATION **Santa Monica Community College, Santa Monica, CA** Sep. 2012 – May 2015

SKILLS	55 wpm	Medical Coding	Accounting & Medical Software Knowledge
	Bilingual (English and Spanish)	EMR Proficiency	Microsoft Word, Excel, Outlook, Intuit
	QuickBooks	Management	Procedure and software implementation

Dieudonne Azinwie Wankwe

3134 W. 145th ST. Apt. 14. Gardena, CA 90249
Phone: +1 (323)-922-7943 E-mail: dieu.nobles@yahoo.com/dieudwankwe39@gmail.com

PROFESSIONAL EXPERIENCE

Rahban CPA & Consulting, Inc. – Staff Accountant **June 2017 - Present**

- Governmental Bank Reconciliation Preparation
- Accounting for Fixed Assets, Valuation and determining replacement cost.
- Calculating Compensated Absences Liability for city employees
- Analyzing balance sheet and income statement account balances, preparing adjusting entries where needed
- Accounting for Deferred Revenue in various fund projects in government entities.
- Accounting for state grants receivable in several government projects/funds.
- Performed general bookkeeping for private sector clients, helping them with budgeting and financial statement preparation
- Assisted in calculating pension payable to CalPERS and ensured that proper amounts were accounted for.

Cornerstone OnDemand - Billing Specialist **March 2018 – June 2019**

- Creating sales orders in the accounting system from complex and international customer agreements.
- Ensuring that invoicing to customers is performed timely and accurately, as well as communicating with the Sales team to research and resolve billing questions.
- Analyzing customer-billing issues for corrective actions.
- Answering billing questions or issues with the local and international customers.
- Preparing billing and sales reports and reconciliations.
- Calculating commissionable annual baseline amounts paid to sales representatives and making sure that clients record is concise, accurately entered in the billing processing system.
- Working in close liaison with the accounting department in calculating user overages and Billings

Goldline Inc – Account Receivable **Jan 2018 - Feb 2018**

- Entered customer’s credit card payments and wires on Microsoft dynamics Ax.
- Journalized each time the credit cards were cleared.
- Updated the credit card sheet, Check log and customer’s wire log.
- Assisted in billing and month end closing process.
- Received checks, journalized them and deposited to the bank.
- Assisted in filing and mailing checks to vendors.

The Hollywood Roosevelt Hotel – Account Receivable **Dec 2017 - Jan 2018**

- Invoiced due individual reservations to Expedia and Hotel Beds,
- Applied payments on currently paid invoices through Opera software,
- Also invoiced for Groups and applied payments thereof,
- Received checks and updated the check log daily and also did filing.

Hotel Victoria Royal- Cameroon – Staff Accountant **June 2014 – Dec 2016**

- Reconciled sales with ending inventory, while reporting discrepancies to management.
- Recorded invoices, cash receipts, and made bank deposits,
- Performed Journal entries and Posting accounting transactions to the ledgers
- Monitored warehouse staff, reported irregularities to management and made recommended better control of inventory.
- Prepared monthly financial statements and reports.

Skills: I am at least intermediate in using the following accounting soft wares; *NetSuite, Community & E-Finance plus, Tyler Eden, Sage, QuickBooks, Peachtree, Microsoft dynamics Ax, Opera, Rent manager, Yardi* and Microsoft office programs like *MS Word, Excel, Outlook, Access, MS Publisher*

EDUCATION:
University of Buea-Cameroon: Graduated: Bachelor of Science (B.sc) in Accounting **Oct 2010 - Oct 2013**

SECTION 3D REFERENCES

1) City of Beverly Hills

Scott Miller, Chief Financial Officer/City Treasurer for City of Riverside, CA
(Former CFO for City of Beverly Hills, CA)
Tel: (951) 826-5660
drsgmiller@gmail.com
OR
Noel Marquis
Retired Assistant Director of Administrative Services Department
Tel: (818) 257-2941
Noel_marquis@sbcglobal.net

2) City of Rialto

Marlene Galvan
Accounting Manager
909-421-4998
mgalvan@rialtoca.gov

3) City of Norwalk

Theresa Clark
Transit Administrative Officer
(562) 929-5601
tclark@norwalkca.gov

4) Beverly Hills Conference and Visitors Bureau

Julie Wagner
CEO
(310) 248-1015 x 210
wagner@lovebeverlyhills.com

5) Gruber & Associates

Matthew Lenton, Director of Audit and Accounting
438 Old Newport Blvd
Newport Beach, CA 92663
(949) 346-2900 office
(562) 508-8388 cell
(714) 901-0024 fax

SECTION 4: PRICE PROPOSAL

In regards to invoicing and charges made by our firm, we will only charge actual hours worked. Please see the table below illustrating our pricing structure:

The actual hours worked will depend greatly on the condition of existing work papers, existing finance software capabilities, District staff resources and time spent over communications, hours needed for staff training, and extent to which assistance is needed for preparing the financial policies.

Category/Classification	Billable Fee
CPA	\$135/hour
Staff Accountant:	\$75/hour
Travel Expenses	At Cost
Additional Fees for Parking, Scanning, Printing, Copying, Binding, and Postage	At Cost (invoices will be provided)
Governing Board Meeting Presentations	3 Hour Minimum Charge for each Meeting Attended

If an unanticipated need arises, we agree to perform this additional work at a price mutually agreed upon before the service is provided. We will invoice this service separately as part of a Change Order. Such invoice will be payable upon presentation [or, payable according to the terms mutually agreed upon].

We will communicate with you often, making recommendations to help you build a better operation and building a win-win, long-term relationship with you.

SECTION 5: PROJECT APPROACH & ESTIMATED COST BREAKDOWN

We are please to present our overall approach to the project as well as the estimated project cost breakdown as follows:

APPROACH:

- Meet with District staff to communicate existing policies and procedures in place and areas of concern
 - This will include becoming familiar with software or any other tools the District uses to perform its financial operations so that they can be incorporated into the financial policies if necessary
 - In becoming familiar with how software is being used, we may request access to a testing environment of the finance software to assist with finding optimal usage so that we can go back and make such recommendations to the District, if needed.
 - We would like to know if there are any areas of concern or any big-ticket items that City staff know which need to be addressed
 - We will discuss the internal control environment, monitoring, information and communication, control activities, and reporting that the District currently has in place.
 - We will gather information if there are any known policies that the District would like to include in the final product of the policy handbook that we will be preparing
- We will review the financial policies of comparable agencies to assist with ensuring that our proposed policy handbook is complete and reasonable
- We will work with our own templates and tailor them to the District to achieve the optimal set of policies for the District
- We will circle back with District staff to request if certain topics are needed within the policy handbook and will provide a draft copy before completion to iron out any requested changes. We would like to do this before providing the final draft to District staff.

ESTIMATED COST BREAKDOWN (Please see next page):

TIME ESTIMATE
WEST VALLEY WATER DISTRICT
POLICY/HANDBOOK PREPARATION

	Rahban CPA & Consulting Inc	
	Estimated Hours	Not-To-Exceed:
	Staff Accountant	CPA
	Hours	Hours
Est. Out of Pocket Costs		
	14	5
	5	3
	5	3
	5	3
	8	3
	8	3
	8	3
	8	3
	8	3
	8	3
	3	1

FINANCIAL POLICIES (including role of CFO and designees; Also including provisions for separation of duties):
We have policy templates we will use and tailor to your agency. We will also compare three other policies from comparable agency's to ensure completeness and reasonableness.

- Purchasing; A/P (including retention payable and use tax payable);
- Cash Receipts; Inventory; General Accounting (including account coding plan)
- Bank Reconciliations
- Payroll
- Debt; Budgeting; Reserve; Carryover
- Corporate credit/Purchase Card
- Travel policy
- Fixed Assets
- Grants
- Fraud Policy/Ethics policy
- Investment Policy
- Delinquent Account procedures

Meeting with Staff to gain an understanding of current software, processes, control environment, monitoring, information and communication, control activities, and reporting

TIME ESTIMATE
WEST VALLEY WATER DISTRICT
POLICY/HANDBOOK PREPARATION

<u>Rahban CPA & Consulting Inc</u>
<u>Estimated Hours Not-To-Exceed:</u>
Staff Accountant
CPA

<u>Est. Out of</u>	
<u>Pocket</u>	
<u>Costs</u>	\$ 494.73

	<u>Hours</u>	<u>Hours</u>
Estimated 3 on site meetings/staff communication/review of notes from meetings	24	24
Travel time: for two staff members	9	9
Mileage: for two staff members		
	12	5
Staff Training		8

Estimated 3 on site meetings/staff communication/review of notes from meetings
Travel time: for two staff members
Mileage: for two staff members

Will prepare report of recommendations for changes in current policy and internal controls to await approval before publishing in the policy handbook.

Staff Training

Weight Factor	0.61	0.39
Total Hours:	125	79
Fee/Hour	\$75	\$135
	\$ 9,375.00	\$ 10,665.00
	CPA: \$ 20,040.00	
	Weighted Average Hourly Rate: \$98	

Grand Total including Cost Reimbursements for Mileage: \$ 20,534.73



RAHBAN CPA & CONSULTING, INC.

March 2, 2020

West Valley Water District
855 W. Base Line Road
Rialto, CA 92376

Dear District Board Members,

This letter confirms our engagement to provide to the West Valley Water District, CA (the “District”) the following services as described below. Work product for this engagement is intended for client’s use only.

Nature, Purpose, and Objective

You have requested that we perform financial policy preparation services for The District. We are pleased to confirm our acceptance and our understanding of the accounting and additional services engagement by means of this letter.

The financial policy preparation services will include, as needed:

- Meeting with Staff to gain an understanding of current software, processes, control environment, monitoring, information and communication, control activities, and reporting
- Staff training, as needed

A financial policy preparation engagement differs significantly from a review or an audit engagement. A financial policy preparation engagement does not contemplate performing inquiry, analytical procedures, or other procedures performed in a review engagement. Additionally, a Financial policy preparation engagement does not contemplate obtaining an understanding of the entity’s internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents (for example, cancelled checks or

bank images); or other procedures ordinarily performed in an audit engagement. Accordingly, we will not express an opinion or provide any assurance regarding financial reports being compiled.

Our engagement cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations. However, we will report to you any evidence or information that comes to our attention during the performance of our Financial policy preparation procedures regarding noncompliance with laws and regulations that may have occurred, unless they are not material.

In regards to implementing any internal controls, you and your staff will be responsible for various implementation decisions and for the ultimate operation of the control(s). We will serve in an advisory role until you and your staff have acquired sufficient experience to manage the internal control system on your own or until December 31, 2020, whichever comes first.

Our Responsibilities, Representations, and Limitations

Our engagement is limited to the period and the accounting services indicated in the agreement.

This engagement does not include business management. We will not review the payment of any invoices or bills. If an amount appears unusual or out of the ordinary, we will call it to your attention, but we do not take any responsibility in the discovery of any errors, irregularities, or fraud.

This engagement will not audit or review your financial statements, or any other accounting documents and information you provide, in accordance with generally accepted auditing standards. Accordingly, we ask that you not in any manner refer to this as an audit or review.

We will not verify the data you submit for accuracy or completeness. Rather, we will rely on the accuracy and completeness of the documents and information you provide to us. Accordingly, our engagement cannot be relied upon to disclose errors, fraud, or other illegal acts that may exist. However, it may be necessary to ask you for clarification of some of the information you provide, and we will inform you of any material errors, fraud or other illegal acts that come to our attention, unless they are clearly inconsequential.

We have no responsibility to identify and communicate significant deficiencies or material weaknesses in your internal controls as part of this engagement, and our engagement cannot, therefore be relied upon to make disclosure of such matters.

Our responsibilities do not include preparation of any tax returns that may be due to any taxing authority. If you need us to prepare other returns, please let us know, and we can enter into a separate agreement using a separate engagement letter for those returns.

We have no financial interest or contemplated financial interest in the business or property that is the subject of this engagement, and we have no personal interest or bias with respect to the parties involved. Our compensation is not contingent on an action or event resulting from the analyses or calculations in, or the use of, this engagement.

Rahban CPA & Consulting Inc, its employees, and agents will take whatever actions are necessary or appropriate for us to conduct the engagement, but we will keep you informed of our actions and progress throughout this engagement. If for any reason we are unable to complete any portion within the engagement(s), we will not issue a report for it as a result of the engagement. We will resign from the engagement if we determine that continuing or completing the engagement will involve a breach of our ethical or professional standards.

We will not audit, review, or compile any financial statements, forecasts, or financial data within this engagement. We will not express an opinion or any form of assurance on the financial data provided within this engagement.

Our engagement cannot be relied on to disclose errors, fraud, or other illegal acts that may exist nor will we be responsible for the impact on our services of incomplete, missing, or withheld information or mistaken fraudulent data provided from any source or sources.

Per the terms of this agreement, the scope of our work does not provide U.S. federal tax advice or state tax advice. Our report(s) cannot be used for the purpose of avoiding federal or state tax penalties or promoting, marketing, or recommending to another party any transaction or matter based on our report(s).

Client Responsibilities and Representations

The West Valley Water District is:

1. Responsible for adopting sound accounting policies, for maintaining an adequate and efficient accounting system, for safeguarding assets, for authorizing transactions, for retaining supporting documentation for those transactions, and for devising a system of internal controls that will, among other things, help assure the preparation of proper financial statements. Furthermore, you are responsible for management decisions and functions, for designating a competent employee to oversee any of the services we provide, and for evaluating the adequacy and results of those services.

2. Responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting The District involving (a) management (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements.
3. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting The District received in communications from employees, former employees, regulators, or others.
4. In addition, you are responsible for identifying and ensuring that The District complies with applicable laws and regulations.
5. Responsible to provide us the following documents or access to the following documents as needed:
 - a) Cash receipt reports and deposit slip copies.
 - b) Cash disbursements copies, invoices, check registers, bank statements copies, including for Payroll.
 - c) Grant agreements, grant financial records, invoices for grant expenditures
 - d) Chart of accounts and org chart
 - e) Detailed list of District assets, liabilities and equity, as well as supporting documentation for proposing journal entries to record transactions making up those accounts
 - f) Other documents necessary for correct account reporting.
6. In order for us to complete this engagement, and to do so efficiently, we require unrestricted access to the following documents and information concerning your entity:
 - a) Copies of basic documents reflecting your financial transactions, including check stubs/copies, summaries of cash receipts and sales (cash, check, and credit), bank statements and canceled checks, listings of accounts receivable and accounts payable, and documentary support of property and equipment transactions-purchases, trades, sales, and other dispositions;
 - b) Information concerning any mortgage or pledge of business assets on business debts, any personal guarantees or debt, leases, or other information that effects or may effect the results of operations of the business;
 - c) Any other financial information necessary for purpose of reflection on your accounting records, trial balance and financial statements that will ultimately affect the financial policies being prepared;
 - d) Identification of all cash receipts as to source (i.e., loans, sales, etc.), and information concerning all transactions that are consummated with cash.

Any failure to provide such documents and information, and to do so on a timely basis, will impede our services, and may require us to suspend our services or withdraw from the engagement. You agree to accept responsibility for any effect on your financial policies, accounting records and financial statements of basic financial information or transaction documents not submitted to us for processing and entry, or losses that may result from their absence.

We will use or require access to The District's accounting software to perform our financial policy preparation work, unless an alternative is presented which is mutually beneficial to both parties. Therefore, we will need access to essential modules and features of The District's software to perform our work efficiently and effectively. Further, we cannot be responsible for the maintenance of The District's software. Our responsibility for this engagement in regards to the financial software owned by The District is only the following:

- To review financial data that will affect financial policy preparation,
- Review journal entries that will affect financial policy preparation,
- Research financial data when needed, and
- Run financial reports when needed.

Client agrees that access to these documents will be provided in a timely manner, as this will enable us to provide you with current, meaningful and useful financial policies, and make recommendations for recording financial transactions if needed.

You agree to provide promptly, upon request, all financial and nonfinancial information and documentation reasonably deemed necessary or desirable by us in connection with the engagement. You agree that we may rely upon such information and documentation without independent investigation or verification.

You agree that we are not required to update our analyses and calculations for events and circumstances occurring after the date of our report.

You are responsible for management decisions and functions and for designating a competent employee to oversee any calculation and/or other services we provide. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services. You are responsible for establishing, maintaining, and monitoring internal controls of the District.

Conflicts

We have undertaken a reasonable review of our records to determine our professional relationships with the persons or entities you identified. We are not aware of any conflicts of interest of relationships that would, in our sole discretion, preclude us from performing the above work for The District.

Delivery and Timing

Our ability to deliver services is dependent upon our timely receipt of the required information. We will use our best efforts to meet any reasonable deadlines, but we do not provide any absolute assurance on the ability to meet deadlines. To facilitate our best efforts, we ask that you keep us timely informed and coordinate our schedules for important dates.

Retention Policy:

We suggest that you adopt a 10 years policy to keep all the accounting records and work papers related to the engagement. When records are returned, it is your responsibility to retain and protect them for future use, potential examination by any government or regulatory agency, prospective buyers of your business, acquiring business loans, etc.

We store information electronically and will communicate with you and others via email. We will take appropriate and customary measures to ensure data security and client confidentiality. However, as electronic information can be stolen and emails intercepted or otherwise disclosed by third parties, we cannot guarantee that information will be absolutely secure. In that regard, you agree that we shall have no liability for any claim, loss or damage arising from the disclosure of confidential or proprietary information.

Invoicing and fees

Our fees will be billed monthly and are based on the amount of time required plus out-of-pocket expenses. Invoices are payable upon presentation. We will notify you immediately of any circumstances we encounter that could significantly affect our initial estimate of total fees.

On an as-needed basis, we may assign other professionals to work on this matter.

We will also charge you for any expenses we incur. These expenses may include (without limitation) postage, computer research, software, office supplies, copying, long distance phone calls, faxes, parking, travel, travel time, lodging, and meals.

Our fee for this engagement is expected not to exceed \$20,534.73. This fee assumes that we do not encounter any unforeseen difficulties and/or information discrepancies and that sufficient, relevant information is available to complete any of our financial policy preparation procedures. If we encounter any such difficulties, the scope and, therefore, the fee for our work may change, and we will notify you immediately.

Further, in connection with the services to be performed, it is difficult at this time to specify the extent of the contemplated services and the time involved. Nevertheless, we shall exert every effort to proceed with this engagement in the most efficient and expeditious manner possible and to limit our services to those required. We reserve the right to request an additional retainer from time to time as work continues. If, during the engagement, other services are requested in addition to the services already described in this engagement letter,

then we will request an amendment to our agreement, or request that a new agreement be entered into if we agree to perform such additional services.

We will not have any obligation to issue reports or other documents or communicate our research, analyses, or conclusions and will not have any obligation to appear for, or provide written or oral testimony or evidence at, trial, deposition, or elsewhere until this account is paid in full, or alternative arrangements have been mutually agreed to in writing by you and us. We will have no liability to you or any other person by reason of not issuing a report, appearing for, and/or providing testimony or other evidence because of failure to pay all amounts due us, and you agree to indemnify any such liability.

We will bill you at our standard hourly rates.

Sharon Rahban Navizadeh CPA Hourly fee	\$135/hour
Staff Accountant hourly fee	\$75/hour
Out-of-Pocket Expenses	At Cost, Receipts will be provided

We reserve the right to withdraw from the engagement. If we do withdraw from the engagement, we will send you a final progress billing, and we will then have no further obligation to complete the professional services. If any calculation during the engagement is terminated prior to completion of a report, Rahban CPA & Consulting Inc will bill for services rendered to the date of termination, which will be due upon presentation. Failure to make the payments required by this agreement or failure by you to comply with the terms of this agreement will give us the sole option to terminate the agreement.

You agree to pay the entire outstanding balance, including the final progress billing. Additionally, if any part or provision of this agreement should be held void or invalid, the remaining provisions shall remain in full force and effect.

In no event shall Rahban CPA & Consulting Inc. be liable to The District, whether a claim be in tort, contract, or otherwise, for any consequential, indirect, lost profit or similar damages relating to Rahban CPA & Consulting Ink’s services provided under this engagement letter, except to the extent finally determined to have resulted from the willful misconduct or fraudulent behavior of Rahban CPA & Consulting Inc. relating to such services.

We want to express our appreciation for this opportunity to work with you.

Very truly yours,

Sharon Rahban Navizadeh CPA

Acknowledged and agreed on behalf of West Valley Water District:

Signed

Printed, Title

Date



**BOARD OF DIRECTORS
STAFF REPORT**

DATE: March 5, 2020
TO: Board of Directors
FROM: Clarence Mansell Jr., General Manager
SUBJECT: MERCHANT SERVICES AGREEMENT - OPENEDGE

DISCUSSION:

West Valley Water District (“District”) is currently transitioning utility billing to Tyler In-Code. Target go live is scheduled for March 16, 2020. In order to accept customers payments, we cannot use the current Merchant Service provider because of non-compatibility with In-Code. To facilitate a seamless connection between Cashiering, Insite, IVR Tyler recommended Open Edge as their preferred Merchant Service Provider. Due to recent changes in Credit Card industry regarding regulation and risk mitigation it is not possible for Tyler to provide open access to all companies at the level of scrutiny credit card industry requires. Limiting processors increases the ability to maintain a more secured connection. OpenEdge provides PCI compliance so it reduces audit scope for its customers. OpenEdge is a division of Global Payments which one of the largest and most trusted processors in the world and offer competitive pricing. I also researched two other providers Elevon and Beyond Business Solutions and OpenEdge is the better choice based on pricing, security, customer service and connectivity with InCode.

FISCAL IMPACT:

Annual Cost approximately \$134,000 included in the FY 19-20 annual budget. The District currently cost is approx. \$ 149,000 annually.

STAFF RECOMMENDATION:

That the WVWD Board of Director’s approve OpenEdge Merchant Service Agreement.

Respectfully Submitted,

Clarence C. Mansell Jr.

Clarence Mansell Jr, General Manager

RM

ATTACHMENT(S):

1. Government Entity Custom Agreement
2. Terms Conditions
3. Addendum A
4. Revised - West Valley Water District_Quote
5. Tyler Technologies-OE Sole Source Letter

CARD SERVICES TERMS & CONDITIONS – GOVERNMENT ENTITIES

1. GENERAL.

- 1.1. The "**Card Services Agreement**" consists of these Card Services Terms & Conditions and the Merchant Application and is made by and among Merchant (or "**you**"), Global Payments Direct, Inc. ("**Global Direct**"), and Member (as defined below). The provisions in the Card Services Agreement are applicable to Merchant if Merchant has signed the appropriate space in the Acceptance of Terms & Conditions/Merchant Authorization section of the Merchant Application. The member bank identified in the Merchant Application ("**Member**") is a member of Visa USA, Inc. ("**Visa**") and Mastercard International, Inc. ("**Mastercard**"). Global Direct is a registered independent sales organization of Visa®, a member service provider of Mastercard®, a registered Program Participant of American Express Travel Related Services Company, Inc. ("**American Express**"), and a registered acquirer for Discover Financial Services LLC ("**Discover**"). Any references to the Debit Sponsor shall refer to the debit sponsor identified below.
- 1.2. Merchant and Global Direct agree that the rights and obligations contained in these Card Services Terms and Conditions do not apply to the Member with respect to American Express®, Discover® and PayPal® transactions and Switched Transactions (as defined below). To the extent Merchant accepts Discover cards, the provisions in this Card Services Agreement with respect to Discover apply if Merchant does not have a separate agreement with Discover. In such case, Merchant will also be enabled to accept JCB®, China UnionPay®, Diner's Club® and, for card present transactions, PayPal cards under the Discover network and such transactions will be processed at the same fee rate as Merchant's Discover transactions are processed. To the extent Merchant accepts Discover cards and has a separate agreement with Discover, Discover and PayPal card transactions shall be processed as Switched Transactions (as defined below). To the extent Merchant accepts American Express cards, the provisions in this Card Services Agreement with respect to American Express apply if Merchant does not have a separate agreement with American Express.
- 1.3. Under the terms of the Card Services Agreement, Merchant will be furnished with the services and products, including any software, described herein and in the Merchant Application and selected by Merchant therein (collectively and individually, as applicable, the "**Services**"). Any Merchant accepted by Global Direct for card processing services agrees to be bound by the Card Services Agreement, including the terms of the Merchant Application and these Card Services Terms & Conditions as may be modified or amended in the future. ***A Merchant's submission of a transaction to Global Direct shall be deemed to signify Merchant's Acceptance of the Card Services Agreement, including the Terms and Conditions herein.***
- 1.4. Except as expressly stated in the first three paragraphs of section 13, all terms and conditions of this Card Services Agreement shall survive termination.

2. SERVICE DESCRIPTIONS.

- 2.1. Credit Card Processing Services: Global Direct's credit card processing services consist of authorization and electronic draft capture of credit card transactions; outclearing of such transactions to the appropriate card associations and/or issuers (e.g., Visa, Mastercard, American Express, Diners, Discover); settlement; dispute resolution with cardholders' banks; and transaction-related reporting, statements and products. From time to time under this Card Services Agreement, upon Merchant's request, Global Direct may facilitate the transmission of certain payment card transactions ("**Switched Transactions**") to the respective card issuers, including but not limited to American Express, Diners Club and various fleet, private label and commercial cards. Switched Transactions require Global Direct's prior written approval and are subject to applicable pricing; Global Direct does not purchase the indebtedness associated with Switched Transactions.

- 2.2. EBT Transaction Processing Services: Global Direct offers electronic interfaces to Electronic Benefits Transfer ("**EBT**") networks for the processing of cash payments or credits to or for the benefit of benefit recipients ("**Recipients**"). Global Direct will provide settlement and switching services for various Point of Sale transactions initiated through Merchant for the authorization of the issuance of the United States Department of Agriculture, Food and Nutrition Services ("**FNS**") food stamp benefits ("**FS Benefits**") and/or government delivered cash assistance benefits ("**Cash Benefits**," with FS Benefits, "**Benefits**") to Recipients through the use of a state-issued card ("**EBT Card**").
- 2.3. Provisions regarding debit card services are set forth in section 27 below.
- 2.4. Provisions regarding Decline Minimizer Services are set forth in section 29 below.
- 2.5. Provisions regarding CallPop OpenEdge Services are set forth in section 30 below.
- 2.6. With respect to Visa and Mastercard products, Merchant may elect to accept credit cards or debit/prepaid cards or both. Merchant shall so elect on the Merchant Application being completed contemporaneously herewith. Merchant agrees to pay and Merchant's account(s) will be charged pursuant to section 5 of this Card Services Agreement for any additional fees incurred as a result of Merchant's subsequent acceptance of transactions with any Visa or Mastercard product that it has elected not to accept.

3. PROCEDURES.

- 3.1. Merchant will permit holders of valid cards bearing the symbols of the cards authorized to be accepted by Merchant hereunder to charge purchases or leases of goods and services and the debt resulting therefrom shall be purchased hereunder, provided that the transaction complies with the terms of this Card Services Agreement. All indebtedness submitted by Merchant for purchase will be evidenced by an approved sales slip. Merchant will not present for purchase any indebtedness that does not arise out of a transaction between a cardholder and Merchant. Merchant agrees to follow the Card Acceptance Guide which is incorporated into and made part of this Card Services Agreement, and to be bound by the operating regulations, requirements, and rules of Visa, Mastercard, American Express, Discover, PayPal and any other card association or network organization covered by this Card Services Agreement, as any of the above referenced documents may be modified and amended from time to time. Merchant acknowledges that the Card Acceptance Guide is located on Global Direct's website at www.globalpaymentsinc.com. Without limiting the generality of the foregoing, Merchant agrees to comply with and be bound by, and to cause any third party who provides Merchant with services related to payment processing or facilitates Merchant's ability to accept credit and debit cards and who is not a party to this Card Services Agreement to comply with and be bound by, the rules and regulations of Visa, Mastercard, American Express, Discover, PayPal and any other card association or network organization related to cardholder and transaction information security, including without limitation, all rules and regulations imposed by the Payment Card Industry ("**PCI**") Security Standards Council (including without limitation the PCI Data Security Standard), Visa's Cardholder Information Security Program, Mastercard's Site Data Protection Program, and Payment Application Best Practices. Merchant also agrees to cooperate at its sole expense with any request for an audit or investigation by Global Direct, Member, a card association or network organization in connection with cardholder and transaction information security.
- 3.2. Without limiting the generality of the foregoing, Merchant agrees that it will use information obtained from a cardholder in connection with a card transaction solely for the purpose of processing a transaction with that cardholder or attempting to re-present a chargeback with respect to such transaction. To the maximum extent permissible under applicable law, Merchant will indemnify and hold Global Direct and Member harmless from any fines and penalties issued by Visa, Mastercard, American Express, Discover, PayPal or any card association or network organization and any other fees and costs arising out of or relating to the processing of transactions by Global Direct and Member at Merchant's location(s) and will reimburse Global Direct for any losses incurred by Global Direct with respect to any such fines, penalties, fees and costs except to the extent that such fines, fees or costs arise solely from the gross negligence or willful misconduct of Global Direct.
- 3.3. Without limiting the generality of any other provision of this Card Services Agreement, Merchant also agrees that it will comply with all applicable laws, rules and regulations related to both: (a) the

truncation or masking of cardholder numbers and expiration dates on transaction receipts from transactions processed at Merchant's location(s), including without limitation the Fair and Accurate Credit Transactions Act and applicable state laws ("**Truncation Laws**"); and (b) the collection of personal information from a cardholder in connection with a card transaction, including all applicable state laws ("**Laws on Collection of Personal Information**"). As between Merchant, on the one hand, and Global Direct and Member, on the other hand, Merchant shall be solely responsible for complying with all Truncation Laws and Laws on Collection of Personal Information and will, to the maximum extent permissible under applicable law, indemnify and hold Global Direct and Member harmless from any claim, loss or damage resulting from a violation of Truncation Laws or Laws on Collection of Personal Information as a result of transactions processed at Merchant's location(s).

- 3.4. Global Direct may, from time to time, issue written directions (via mail or Internet) regarding procedures to follow and forms to use to carry out this Card Services Agreement. These directions and the terms of the forms are binding as soon as they are issued and shall form a part of these Card Services Terms & Conditions. Such operating regulations and rules may be reviewed upon appointment at Global Direct's designated premises and Merchant acknowledges that it has had the opportunity to request a review and/or review such operating regulations and rules in connection with its execution of this Card Services Agreement.
4. **MARKETING.** Merchant shall adequately display the card issuer service marks and promotional materials supplied by Global Direct. Merchant shall cease to use or display such service marks immediately upon notice from Global Direct or upon termination of this Card Services Agreement.
5. **PAYMENT, CHARGES AND FEES.** Fees and charges payable by Merchant for all products, services and applications, whether provided by Global Direct, a third party through Global Direct, or directly by a third party with Global Direct collecting monies with respect thereto (e.g., a POS Vendor Fee), shall be as set forth in the Merchant Application (exclusive of taxes, duties and shipping and handling charges). With respect to POS Vendor Fees, Global Direct does not control and is not responsible for the POS Vendor Fees charged to Merchant, and the pricing for any such fees depends on Merchant's agreement with such third party. Merchant shall at all times maintain one or more commercial checking accounts with Member or with another financial institution of Merchant's choice acceptable to Member and Global Direct that belongs to the Automated Clearing House ("**ACH**") network and which can accept ACH transactions. Merchant will be paid for indebtedness purchased under this Card Services Agreement by credit to Merchant's account(s). Merchant's account(s) will be credited for the gross amount of the indebtedness deposited less the amount of any credit vouchers deposited. Merchant shall not be entitled to credit for any indebtedness that arises out of a transaction not processed in accordance with the terms of this Card Services Agreement or the rules and regulations of a card association or network organization. Availability of any such funds shall be subject to the procedures of the applicable financial institution. Chargebacks and adjustments will be charged to Merchant's account(s) on a daily basis. Merchant agrees to pay and Merchant's account(s) will be charged for the discount, fees, product service costs, chargebacks, and other fees and charges described in this Card Services Agreement. Merchant also agrees to pay and Merchant's account(s) will be debited for all fees, arbitration fees (such arbitration fees to be allocated equally among Merchant and the applicable third party), fines, penalties, etc. charged or assessed by third parties, the card associations or network organizations on account of or related to Merchant's processing hereunder, including without limitation with regards to any third party who provides Merchant with services related to payment processing or facilitates Merchant's ability to accept credit and debit cards and who is not a party to this Card Services Agreement. If any type of overpayment to Merchant or other error occurs, Merchant's account(s) may be debited or credited, without notice, and if Merchant's account(s) do not contain sufficient funds, Merchant agrees to remit the amount owed directly to Global Direct. Merchant agrees not to, directly or indirectly, prevent, block or otherwise preclude any debit by Global Direct or Member to Merchant's account which is permitted hereunder. Merchant represents and warrants that no one other than Merchant has any claim against such indebtedness except as authorized in writing by Member and Global Direct. Merchant hereby assigns to Member and Global Direct all of its right, title, and interest in and to all indebtedness submitted hereunder, agrees that Member and Global Direct have the sole right to receive payment on any indebtedness purchased hereunder, and further agrees that Merchant shall have no right, title or interest in any such funds, including any such funds held in a Reserve Account (as defined below).

6. EQUIPMENT AND SUPPLIES/THIRD PARTY SERVICES.

- 6.1. Merchant agrees that it will not acquire any title, copyrights, or any other proprietary right to any advertising material; leased equipment including imprinters, authorization terminals, card reader hardware or printers; software; credit card authenticators; unused forms (online or paper); all hardware and software related to the CallPop OpenEdge Services (as defined below); and Merchant deposit plastic cards provided by Global Direct in connection with this Card Services Agreement. Merchant will protect all such items from loss, theft, damage or any legal encumbrance and will allow Global Direct and its designated representatives reasonable access to Merchant's premises for their repair, removal, modification, installation and relocation. Merchant acknowledges that any equipment or software provided under this Card Services Agreement is embedded with proprietary technology ("**Software**"). Merchant shall not obtain title, copyrights or any other proprietary right to any Software. At all time, Global Direct or its suppliers retain all rights to such Software, including but not limited to updates, enhancements and additions. Merchant shall not disclose such Software to any party, convey, copy, license, sublicense, modify, translate, reverse engineer, decompile, disassemble, tamper with, or create any derivative work based on such Software, or transmit any data that contains software viruses, time bombs, worms, Trojan horses, spyware, disabling devices, or any other malicious or unauthorized code. Merchant's use of such Software shall be limited to that expressly authorized by Global Direct. Global Direct's suppliers are intended third party beneficiaries of this Card Services Agreement to the extent of any terms herein pertaining to such suppliers' ownership rights; such suppliers have the right to rely on and directly enforce such terms against Merchant.
- 6.2. The operating instructions or user guides will instruct Merchant in the proper use of the terminals, other hardware or payment application(s), and Merchant shall use and operate the terminals, other hardware or payment application(s) only in such manner. If Merchant has purchased the relevant maintenance/help desk service hereunder, Merchant will promptly notify Global Direct of any equipment malfunction, failure or other incident resulting in the loss of use of the equipment or software or need for repair or maintenance, whereupon Global Direct will make the necessary arrangements to obtain required maintenance or replacement software or hardware. Merchant is responsible for shipping costs. Merchant shall cooperate with Global Direct in its attempt to diagnose any problem with the terminal, other hardware or payment application(s). If Merchant's terminal requires additional Software, Merchant is obligated to cooperate and participate in a dial in down line load procedure. With respect to any item of equipment leased to Merchant by Global Direct, Merchant will not be liable for normal wear and tear, provided, however, that Merchant will be liable to Global Direct if any leased item of equipment is lost, destroyed, stolen or rendered inoperative. To the extent permissible under applicable law, Merchant will indemnify Global Direct against any loss arising out of damage to or destruction of any item of equipment or software provided hereunder for any cause whatsoever. Merchant also agrees, to the extent permissible under applicable law, to hold harmless and indemnify Global Direct for any costs, expenses, and judgments Global Direct may suffer, including reasonable attorney's fees, as a result of Merchant's use of the equipment or software provided hereunder. Any unused equipment in its original packaging purchased from Global Direct hereunder may be returned to Global Direct at Merchant's expense within 60 days of receipt. Merchant shall receive a refund of any money paid in connection therewith subject to a re-stocking fee of an amount equal to 20 percent of the total purchase price for the returned equipment. No refunds shall be issued for any equipment returned after 60 days.
- 6.3. Merchant acknowledges that some of the services and applications to be provided by Global Direct and Member hereunder may be provided by third parties. Merchant agrees that except for its right to utilize such services in connection with this Card Services Agreement, it acquires no right, title or interest in any such services. Merchant further agrees that it has no contractual relationship with any third party providing Services under this Card Services Agreement and that Merchant is not a third party beneficiary of any agreement between Global Direct or Member, as applicable, and such third party. Merchant may not resell the services of any third party providing Services under this Card Services Agreement to any other party.
- 6.4. Merchant acknowledges that it may directly obtain software platform services from a third party that facilitate or integrate Global Direct's Services as set forth in section 2. Global Direct does not control and is not responsible for such software platform services or any fees (and their occurrence) charged by

such third party to Merchant related to such software platform services. The pricing for Merchant's use of any third-party platform services and any associated fees depends on Merchant's agreement with such third party. Merchant authorizes Global Direct to collect all monies related to Merchant's use of such third-party software (i.e., the POS Vendor Fee) on behalf of such third party as set forth in the Merchant Application and Merchant's agreement with such third party. Global Direct is not responsible for the acts or omissions of any third party and shall have no responsibility for or liability in connection with any software platform services Merchant receives from a third party, even if Global Direct collects monies with respect to such software or services. Global Direct makes no representation or warranty with respect to such third party's software platform services or such third party's access to or ability to integrate with the products, services, and systems of Global Direct and any such access or ability may terminate at any time and Global Direct shall have no obligation to advise Merchant of such termination.

7. **FINANCIAL INFORMATION.** Merchant agrees to furnish Global Direct and Member such financial statements and information concerning Merchant as Global Direct or Member may from time to time request. Global Direct and Member, or their duly authorized representatives, may examine the books and records of Merchant, including records of all indebtedness previously purchased or presented for purchase. Merchant agrees to retain copies of all paper and electronic sales slips and credit slips submitted to Global Direct for a period of two years from submission, or such longer period of time as may be required by the operating rules or regulations of the card associations or network organizations, by law, or by Global Direct as specifically requested in writing in individual cases.
8. **CHANGE IN BUSINESS.** Merchant agrees to provide Global Direct and Member 60 days prior written notice of its: (a) transfer or sale of any substantial part (ten percent or more) of its total stock, assets and/or to liquidate; or (b) change to the basic nature of its business, or (c) provided that Merchant has not indicated on the Merchant Application that it accepts mail order, telephone order, or internet-based transactions, conversion of all or part of the business to mail order sales, telephone order sales, Internet-based sales or to other sales where the card is not present and swiped through Merchant's terminal or other card reader. Upon the occurrence of any such event, the terms of this Card Services Agreement may be modified to address issues arising therefrom, including but not limited to requirements of applicable card associations or network organizations.
9. **TRANSFERABILITY.** This Card Services Agreement is not transferable by Merchant without the prior written consent of Global Direct and Member. Any attempt by Merchant to assign its rights or to delegate its obligations in violation of this paragraph shall be void. Merchant agrees that the rights and obligations of Global Direct hereunder may be transferred by Global Direct without notice to Merchant. Merchant agrees that the rights and obligations of Member hereunder may be transferred to any other member without notice to Merchant. Merchant acknowledges that the transferable rights of Global Direct and Member hereunder shall include, but shall not be limited to, the authority and right to debit the Merchant's account(s) as described herein.
10. **WARRANTIES AND REPRESENTATIONS.**

10.1. Merchant warrants and represents to Global Direct and Member: (a) that each sales transaction delivered hereunder will represent a bona fide sale to a cardholder by Merchant for the amount shown on the sales slip as the total sale and constitutes the binding obligation of the cardholder, free from any claim, demand, defense, setoff or other adverse claim whatsoever; (b) that each sales slip or other evidence of indebtedness will accurately describe the goods and services which have been sold and delivered to the cardholder or in accordance with his instructions; (c) that Merchant will comply fully with all federal, state and local laws, rules and regulations applicable to its business; (d) that Merchant will fulfill completely all of its obligations to the cardholder and will resolve any customer dispute or complaint directly with the cardholder; (e) that the signature on the sales slip will be genuine and authorized by cardholder and not forged or unauthorized; (f) that the sales transaction shall have been consummated and the sales slip prepared in full compliance with the provisions of the Card Acceptance Guide and the operating regulations and rules of the applicable card association or network organization, as amended from time to time; (g) provided that Merchant has not indicated on the Merchant Application that it accepts mail order, telephone order, or internet-based transactions, that none of the sales transactions submitted hereunder represent sales by telephone, or mail, or Internet, or where the card is not physically present at the Merchant's location and swiped through Merchant's

terminal, unless Merchant is specifically authorized in writing by Global Direct to submit such sales slips for purchase, (h) to the extent Merchant has indicated on the Merchant Application that it accepts mail order, telephone order, or internet-based transactions, Merchant shall not submit such a transaction to Global Direct and Member for processing until the goods and/or services are shipped or performed, as applicable, unless otherwise permitted by the card associations or network organizations, (i) that sales transactions submitted hereunder for purchase representing sales to any principal, partner, or proprietor of Merchant shall not constitute an unreasonable portion of Merchant's transactions relative to the Merchant's legitimate business requirements, (j) that, without limiting the generality of the foregoing, each sales transaction submitted hereunder and the handling, retention, and storage of information related thereto, will comply with the rules and regulations of Visa, Mastercard, American Express, Discover, PayPal and any other card association or network organization related to cardholder and transaction information security, including without limitation PCI Data Security Standards, Visa's Cardholder Information Security Program and Mastercard's Site Data Protection Program, and (k) that all of the information contained in this Card Services Agreement (including the Merchant Application) is true and correct. If that any of the foregoing warranties or representations is breached, the affected sales slips or other indebtedness may be refused, or prior acceptance revoked and charged back to the Merchant. Furthermore, if Merchant submits for purchase hereunder a sales transaction that is not the result of a sale of Merchant's goods or services offered to the general public or if Merchant submits any sales transactions for purchase hereunder which represents an unreasonable sales transaction to any principal, partner, or proprietor, of Merchant, such sales transaction may be refused or charged back.

10.2. Merchant must notify Global Direct if Merchant elects to use the terminal service of American Express, Novus, or any other third-party provider. If Merchant elects to use a third-party terminal provider, that provider becomes Merchant's agent for the delivery of card transactions to Global Direct via the applicable card-processing network. Global Direct and Member shall have no responsibility for or liability in connection with any hardware, software or services Merchant receives from a third party agent, even if Global Direct collects monies with respect to such hardware, software or services. Neither Global Direct nor Member makes any representation or warranty with respect to such agent's access to or ability to integrate with the products, services, and systems of Global Direct and any such access or ability may terminate at any time and Global Direct shall have no obligation to advise Merchant of such termination. Merchant agrees to assume full responsibility and liability for any failure of such agent to comply with the operating regulations and rules of the applicable card association or network organization, including without limitation any violation, which results in a chargeback to the Merchant. Global Direct and Member have no responsibility for any card transactions until it receives data for the card transaction in the format required by Global Direct. Merchant also agrees that the obligation hereunder to reimburse the Merchant for the value of the card transactions captured by an agent is limited to the value of the transactions (less applicable fees) received by the card-processing network from the agent.

10.3. ***Neither Member, nor Global Direct, nor any Supplier makes any representations or warranties, express or implied, including without limitation any warranty of merchantability or fitness for a particular purpose with respect to any terminal, any equipment, software or services leased, sold, or otherwise furnished hereunder.***

11. **INDEMNITY.** Merchant agrees to satisfy directly with the cardholder any claim or complaint arising in connection with the card sale, regardless of whether such claim or complaint is brought by the cardholder, Global Direct, or another party. To the extent permissible under applicable law, Merchant agrees to indemnify defend and hold Global Direct, Member and their respective parent companies, subsidiaries and affiliates (including, without limitation, the respective officers, directors, employees, attorneys, shareholders, representatives and agents of all of the foregoing) harmless from and against any and all liabilities, judgments, arbitration awards, settlements, actions, suits, claims, demands, losses, damages, costs (including, but not limited to, court costs and out of pocket costs and expenses), expenses of any and every type, litigation expenses, and attorneys' fees, including, but not limited to, attorneys' fees incurred in any and every type of suit, proceeding, or action, including but not limited to, bankruptcy proceedings, in connection with, by virtue of, or arising from, either directly or indirectly: (a) any card transaction that does not conform to the requirements of this Card Services Agreement, the rules and regulations of any card association or applicable laws; (b) any card transaction or any act or omission of Merchant in connection with a cardholder; (c)

Merchant's breach or default or an alleged breach or default of or under any term, covenant, condition, representation, warranty, obligation, undertaking, promise or agreement contained in this Card Services Agreement or in any agreement (whether oral or written) with any cardholder, any agreement with any card association, or in any other agreement with Member or Global Direct, any breach or threatened breach by Merchant of the card association rules and regulations or any violation by Merchant of laws, rules and regulations applicable to Merchant; (d) the rescission, cancellation or avoidance of any card transaction, by operation of law, adjudication or otherwise; (e) any claim, counterclaim, complaint, dispute or defense, including, without limitation claims brought by Merchant, whether or not well founded, with respect to this Card Services Agreement or a card transaction; (f) damages, including, without limitation, those for death or injury caused by the good or service purchased with the card; or (g) for all web based, Internet or electronic commerce transactions including Merchant's insecure transmission of card transaction data and/or storage of cardholder information. For purposes of this Card Services Agreement, including the foregoing indemnities to the extent permissible under applicable law, Merchant is responsible and liable for the acts and omissions of its employees, agents and representatives (whether or not acting within the scope of their duties).

12. LIMITATION OF LIABILITY.

- 12.1. *Neither Member nor Global Direct shall be liable for failure to provide the Services or delay in providing the Services including processing delays or other non-performance if such failure is due to any cause or condition beyond such Party's reasonable control. Such causes or conditions shall include, but shall not be limited to, acts of God or the public enemy, acts of the government in either its sovereign or contractual capacity, fires, floods, epidemics, quarantine restrictions, strikes, riots, war, shortages of labor or materials, freight embargoes, unusually severe weather, breakdowns, operational failures, electrical power failures, telecommunications failures, equipment failures, unavoidable delays, the errors or failures of third party systems, non-performance of vendors, suppliers, processors or transmitters of information, or other similar causes beyond such party's control.*
- 12.2. *The liability of Global Direct and Member for any loss arising out of or relating in any way to this Card Services Agreement, including but not limited to damages arising out of any malfunction of the Equipment or the failure of the Equipment to operate, the unavailability or malfunction of the Equipment or the failure of the Equipment to operate, the unavailability or malfunction of the Services, personal injury or property damage, shall, in the aggregate, be limited to actual, direct, and general money damages in an amount not to exceed three months average charge paid by Merchant hereunder (exclusive of interchange fees, assessments, and any other fees or costs that are imposed by a third party in connection with Merchant's payment processing) for the Services during the previous 12 months or such lesser number of months as shall have elapsed subsequent to the Effective Date of this Card Services Agreement. This shall be the extent of Global Direct's and Member's liability arising out of or relating in any way to this Card Services Agreement, including alleged acts of negligence, breach of contract, or otherwise and regardless of the form in which any legal or equitable action may be brought against Global Direct or Member, whether contract, tort, or otherwise, and the foregoing shall constitute Merchant's exclusive remedy.*
- 12.3. *Under no circumstances shall Global Direct or Member be liable for special, consequential, punitive or exemplary damages, including lost profits, revenues and business opportunities, arising out of or relating in any way to this Card Services Agreement, including but not limited to damages arising out of placement of a merchant's name on any terminated merchant list for any reason even if Global Direct or Member has been advised of the possibility of such damages. Under no circumstances shall Global Direct, or Member be liable for any settlement amounts pertaining to Switched Transactions; Merchant's recourse therefore shall be to the applicable card issuer. Member shall not be responsible or liable to Merchant for any action taken by Member (or the results thereof) that is authorized by this Card Services Agreement.*
- 12.4. *It is agreed that in no event will Global Direct or Member be liable for any claim, loss, billing error, damage or expense arising out of or relating in any way to this Card Services Agreement which is not reported in writing to Global Direct by Merchant within 60 days of such failure to perform, or, if a billing error occurs, within 90 days of the date of the invoice or applicable statement. Merchant expressly waives any such claim that is not brought within the time periods stated herein.*

12.5. *Global Direct agrees to maintain commercially reasonable levels of insurance coverage during the term of the Card Services Agreement consistent with the scope and nature of its business and applicable industry best practices. Upon reasonable request, Global Direct shall deliver a certificate of insurance reflecting its then-current policy coverage and carriers.*

13. TERM AND TERMINATION.

13.1. This Card Services Agreement shall remain in full force and effect for an initial term of one year (the “**Initial Term**”). The Card Services Agreement will automatically renew for additional one year periods (“**Renewal Term**” or “**Renewal Terms**”, and together with the Initial Term, the “**Term**”) unless Merchant gives 30 days’ advance written notice of termination prior to the end of the then-current term. This Card Services Agreement is expressly made subject to the limitations of the Merchant’s state constitution. Nothing herein shall constitute, nor be deemed to constitute, the creation of a debt or multi-year fiscal obligation or an obligation of future appropriations by Merchant, contrary to the any constitutional, statutory or charter debt limitation. Notwithstanding any other provision of this Card Services Agreement, with respect to any financial obligation of Merchant which may arise under this Card Services Agreement in any fiscal year, if the budget or other means of appropriations for any such year fails to provide funds in sufficient amounts to discharge such obligation, such failure shall not constitute a default or breach of this Card Services Agreement, including any sub-agreement, attachment, schedule, or exhibit thereto, by the Merchant.

13.2. Notwithstanding the foregoing, Global Direct may terminate this Card Services Agreement or any portion thereof upon written notice to Merchant. Furthermore, Global Direct may terminate this Card Services Agreement at any time without notice upon Merchant’s default in performing under any provision of this Card Services Agreement, upon an unauthorized conversion of all or any part of Merchant’s activity to mail order, telephone order, Internet order, or to any activity where the card is not physically present and swiped through the Merchant’s terminal or other card reader, upon any failure to follow the Card Acceptance Guide or any operating regulation or rule of a card association or network organization, upon any misrepresentation by Merchant, upon commencement of bankruptcy or insolvency proceedings by or against the Merchant, upon a material change in the Merchant’s average ticket or volume as stated in the Merchant Application, or if Global Direct reasonably deems itself insecure in continuing this Card Services Agreement.

13.3. If Global Direct and Member breach the terms and conditions hereof, the Merchant may, at its option, give written notice to Global Direct and Member of its intention to terminate this Card Services Agreement unless such breach is remedied within 30 days of such notice. Failure to remedy such a breach shall make this Card Services Agreement terminable, at the option of the Merchant, at the end of such 30-day period unless notification is withdrawn.

13.4. Any Merchant deposit of sales or credit slips that is accepted by Global Direct and Member or by a designated depository after the effective date of termination will be returned to Merchant and will not be credited (or debited) to Merchant’s account(s). If the deposit has already been posted to Merchant’s account(s), said posting will be reversed and the deposit returned to Merchant. Termination of this Card Services Agreement shall not affect Merchant’s obligations which have accrued prior to termination or which relate to any indebtedness purchased hereunder prior to termination, including but not limited to chargebacks even if such chargebacks come in after termination. If a termination occurs, all equipment leased from, and software provided by, Global Direct including but not limited to imprinters, terminals, and printers; all supplies; Card Acceptance Guides; and operating instructions must be returned immediately to Global Direct at Merchant’s expense.

14. **RETURNED ITEMS/CHARGEBACKS.** If a cardholder disputes any transaction, if a transaction is charged back for any reason by the card issuing institution, or if Global Direct or Member has any reason to believe an indebtedness previously purchased is questionable, not genuine, or is otherwise unacceptable, the amount of such indebtedness may be charged back and deducted from any payment due to Merchant or may be charged against any of Merchant’s accounts or the Reserve Account (as defined below). Merchant acknowledges and agrees that it is bound by the rules of the card associations and network organizations with respect to any chargeback. Merchant further acknowledges that it is solely responsible for providing Global Direct and Member with any available information to re-present a chargeback and that, regardless of

any information it provides or does not provide Global Direct and Member in connection with a chargeback, or any other reason, Merchant shall be solely responsible for the liability related to such chargeback. A list of some common reasons for chargebacks is contained in the Card Acceptance Guide provided, however, that such list is not exclusive and does not limit the generality of the foregoing. If any such amount is uncollectible through withholding from any payments due hereunder or through charging Merchant's accounts or the Reserve Account, Merchant shall, upon demand by Global Direct, pay Global Direct the full amount of the chargeback. Merchant understands that obtaining an authorization for any sale shall not constitute a guarantee of payment, and such sales slips can be returned or charged back to Merchant like any other item hereunder.

15. RESERVE ACCOUNT.

15.1. At any time, Global Direct and Member may, at their option, establish a reserve account to secure the performance of Merchant's obligations under this Card Services Agreement to such party ("**Reserve Account**"). The Reserve Account may be funded, at Global Direct's sole discretion, through any or all of the following: (a) direct payment by Merchant—at the request of Global Direct or Member, Merchant will deposit funds in the Reserve Account; or (b) the proceeds of indebtedness presented for purchase. Merchant hereby grants Member a security interest in all accounts referenced in section 5 or any other accounts, including certificates of deposits, maintained by Merchant with any designated depository or other financial institution and authorizes Global Direct (to the extent authorized by Member) or Member to make such withdrawals at such times and in such amounts as it may deem necessary hereunder. Merchant hereby instruct said financial institutions to honor any requests made by Global Direct and Member under the terms of this provision. To the extent permissible under applicable law, Merchant will hold harmless the financial institutions and indemnify them for any claims or losses they may suffer as a result of honoring withdrawal requests from Global Direct and Member.

15.2. Merchant hereby agrees that Global Direct and Member may deduct from this Reserve Account any amount owed to such party in accordance with this Card Services Agreement. Any funds in the Reserve Account may be held until the later of (a) the expiration of any potentially applicable chargeback rights in respect of purchased indebtedness under the rules and regulations of the card associations or network organizations and (b) the period necessary to secure the performance of Merchant's obligations under this Card Services Agreement, which holding period may extend beyond termination of this Card Services Agreement. Merchant will not receive any interest on funds being held in a Reserve Account and Merchant has no right to access the funds being held in the Reserve Account or otherwise transfer, pledge or use these funds for its own purposes. Without limiting the generality of the foregoing, Merchant shall, upon termination of this Card Services Agreement, maintain the sum of at least five percent of gross sales for the 90-day period prior to termination to be held in a Reserve Account in accordance with the terms of this Card Services Agreement. Global may, at its discretion upon termination of this Card Services Agreement, require that the Merchant maintain more than five percent of gross sales for the 90-day period prior to termination in a Reserve Account.

16. DEFAULT/SECURITY INTEREST.

16.1. Upon failure by Merchant to meet any of its obligations under this Card Services Agreement (including funding the Reserve Account), any of the accounts referred to in section 5 may be debited without notice to Merchant, and Merchant (on behalf of itself and its affiliated entities) hereby grants to Member, Global Direct a lien and security interest in all of Merchant's right, title and interest in or to any of the following assets or properties: (a) all of the accounts referenced in the preceding sentence; (b) the Reserve Account; (c) any rights to receive credits or payments under this Card Services Agreement; and (d) all deposits and other property of Merchant that Member or its affiliates possess or maintain (including all proceeds of the foregoing). Merchant shall execute, acknowledge or deliver any documents or take any actions Member, Global Direct may from time to time request to better assure, preserve, protect, perfect, maintain or enforce this security interest. To the extent permitted by law, Merchant irrevocably authorizes Member, Global Direct to file any financing statements (at Merchant's expense) in any relevant jurisdiction or any other documents or instruments related to this security interest. Merchant represents and warrants that: (a) Merchant has good and valid rights and title to the property described herein; (b) Merchant has full power and authority to grant to Member the security interest pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this Card

Services Agreement, without the consent or approval of any other person or entity; (c) no other person or entity has a security interest or lien in any of the property described herein; and (d) this security interest is a first lien security interest and secures Merchant's obligations to Member under this Card Services Agreement. Member shall have all rights of a secured party and Merchant must obtain the prior written consent of Member before granting any subsequent security interest or lien in the property described herein. Merchant agrees that it is Merchant's intent that these accounts and secured property shall to the extent allowed by applicable law not be subject to any preference, claim, or stay by reason of any bankruptcy or insolvency law. Merchant agrees to act consistently with the understanding that said accounts and secured property under this Card Services Agreement are free of all such preferences, claims or stays by reason of and as allowed by any such law. The scope of the security interest, and Merchant's (on behalf of itself and its affiliated entities) instructions to its financial institutions to accept withdrawal requests from Global Direct, Member, and Merchant's agreement to hold such institutions harmless and to indemnify them, to the extent permissible under applicable law, are described above in section 15.

16.2. Merchant also agrees that, if a default by Merchant occurs, Member has a right of setoff and may apply any of Merchant's balances or any other monies due Merchant from Member towards the payment of amounts due from Merchant under the terms of this Card Services Agreement. The rights stated herein are in addition to any other rights Global Direct, Member may have under applicable law.

17. DISPUTE RESOLUTION AND CLASS ACTION WAIVER

17.1. Any litigated action regarding, relating to or involving the validity, scope and/or enforceability of this Card Services Agreement, shall be brought in either the courts of the state of Georgia sitting in Muscogee County or the United States District Court for the Middle District of Georgia, and Merchant and Global Direct expressly agree to the exclusive jurisdiction of such courts. Merchant and Global Direct hereby agree and consent to the personal jurisdiction and venue of such courts, and expressly waive any objection that Merchant or Global Direct might otherwise have to personal jurisdiction or venue in such courts.

17.2. **Class Action Waiver:** *Merchant acknowledges and agrees that all disputes arising out of or related to this Card Services Agreement shall be resolved on an individual basis without resort to any form of class action and shall not be consolidated with the claims of any other parties. Merchant further agrees to waive, and hereby waives, the right to participate in a class action or to litigate or arbitrate on a class-wide basis.*

17.3. Merchant hereby agrees that claims applicable to American Express may be resolved through arbitration as further described in the American Express Merchant Requirements Guide (the "**American Express Guide**").

18. **AMENDMENTS.** This Card Services Agreement may be amended only in writing signed by Global Direct, Member, and Merchant, except that: (a) the Card Acceptance Guide and any and all fees, charges, and/or discounts (including without limitation surcharges) may be changed immediately, or (b) Global Direct may mail Merchant either (i) a notice describing amendments to this Card Services Agreement or new services to be provided or fees to be charged to Merchant or (ii) an entirely new agreement, which notice, amendments or new agreement will be binding upon Merchant if it deposits sales or credit slips after the effective date of such amendment or new agreement set forth in Global Direct's notice. If Merchant provides written objection to such changes or amendments, Merchant shall have 15 calendar days from receipt of such changes or amendments to provide written notice to Global Direct of its desire to terminate this Card Services Agreement. Following receipt of such written notice, the amendments communicated by Global Direct or Member shall not take effect, and the Card Services Agreement shall continue under the prior terms for a period of up to 30 days. At the end of such 30-day period, this Card Services Agreement shall terminate and Merchant's ability to utilize the Services will cease.

19. **WAIVER.** No provision of this Card Services Agreement shall be deemed waived by any party unless such waiver is in writing and signed by the party against whom enforcement is sought. No failure to exercise, and no delay in exercising on the part of any party hereto, any right, power or privilege under this Card Services Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege under this Card Services Agreement preclude any other or further exercise thereof or the exercise of any other right, power, or privilege.

20. **EXCHANGE OF INFORMATION.** Merchant authorizes Global Direct to order a credit report on Merchant. Merchant hereby authorizes Member or any depository institution to release any financial information concerning Merchant or its accounts to Global Direct. Subsequent credit reports may be ordered in connection with updating, renewing or continuing this Card Services Agreement. Upon the written request of any individual who is the subject of a consumer credit report, Global Direct will provide the name and address of the consumer credit reporting agency furnishing such report, if any. Global Direct may exchange information about Merchant with Member, other financial institutions and credit card associations, network organizations and any other party. Merchant hereby authorizes Global Direct to disclose information concerning Merchant's activity to any card association, network organizations, or any of their member financial institutions, or any other party without any liability whatsoever to Merchant.
21. **GENERAL.** If any provision of this Card Services Agreement or portion thereof is held to be unenforceable, such a determination will not affect the remainder of this Card Services Agreement. Paragraph headings are included for convenience only and are not to be used in interpreting this Card Services Agreement.
22. **NOTICES.** All notices required by this Card Services Agreement shall be in writing and shall be sent by facsimile, by overnight carrier, or by regular or certified mail. All notices sent to Global Direct or Member shall be effective upon actual receipt by the Corporate Secretary of Global Payments Direct, Inc.- 3550 Lenox Road NE, Suite 3000, Atlanta GA 30326. Any notices sent to Merchant shall be effective upon the earlier of actual receipt or upon sending such notice to the address provided by Merchant in the Merchant Application or to any other e-mail or physical address to which notices, statements and/or other communications are sent to the Merchant hereunder. The parties hereto may change the name and address of the person to whom notices or other documents required under this Card Services Agreement must be sent at any time by giving written notice to the other party.
23. **MERGER.** This Card Services Agreement, including these Card Services Terms & Conditions and the Merchant Application, constitutes the entire agreement between Merchant, Global Direct, and Member and supersedes all prior memoranda or agreements relating thereto, whether oral or in writing.
24. **EFFECTIVE DATE.** This Card Services Agreement shall become effective only upon acceptance by Global Direct and Member, or upon delivery of indebtedness at such locations as designated by Global Direct for purchase, whichever event shall first occur.
25. **DESIGNATION OF DEPOSITORY.** The financial institution set forth in the Merchant Application is designated by Merchant as a depository institution ("**Depository**") for its credit card indebtedness. Such financial institution must be a member of an Automated Clearing House Association. Merchant authorizes payment for indebtedness purchased hereunder to be made by paying Depository therefore with instructions to credit Merchant's accounts. Depository, Member, and/or Global Direct may charge any of Merchant's accounts at Depository for any amount due under this Card Services Agreement. Global Direct must approve in writing any proposed changes to the account numbers or to the Depository. Merchant hereby authorizes Depository to release any and all account information to Global Direct as Global Direct may request without any further authorization, approval or notice from or to Merchant.
26. **FINANCIAL ACCOMMODATION.** The acquisition and processing of sales slips hereunder is a financial accommodation and, as such, if Merchant becomes a debtor in bankruptcy, this Card Services Agreement cannot be assumed or enforced, and Global Direct and Member shall be excused from performance hereunder.
27. **DEBIT / ATM PROCESSING SERVICES: ADDITIONAL TERMS AND CONDITIONS.**
- 27.1. Debit Sponsor shall act as Merchant's sponsor with respect to the participation of point-of-sale terminals owned, controlled, and/or operated by Merchant (the "**Covered Terminals**") in each of the following debit card networks ("**Networks**"): Accel, AFFN, Alaska Option, CU24, Interlink, Maestro, NYCE, Pulse, Shazam, Star, and Tyme, which Networks may be changed from time-to-time by Debit Sponsor or Global Direct without notice. Merchant may also have access to other debit networks that do not require a sponsor. Global Direct will provide Merchant with the ability to access the Networks at the Covered Terminals for the purpose of authorizing debit card transactions from cards issued by the members of the respective Networks. Global Direct will provide connection to such Networks, terminal applications, settlement, and reporting activities. Merchant will comply with all federal, state, and local laws, rules, regulations, and ordinances ("**Applicable Laws**") and with all by-laws, regulations, rules,

and operating guidelines of the Networks ("**Network Rules**"). Merchant will execute and deliver any application, participation, or membership agreement or other document necessary to enable Debit Sponsor to act as sponsor for Merchant in each Network. Merchant agrees to utilize the debit card Services in accordance with the Card Services Agreement, its exhibits or attachments, and Global Direct's instructions and specifications (including but not limited to the Card Acceptance Guide which is incorporated into and made a part of this Card Services Agreement), and to provide Global Direct with the necessary data in the proper format to enable Global Direct to properly furnish the Services. Copies of the relevant agreements or operating regulations shall be made available to Merchant upon request.

27.2. Merchant shall not in any way indicate that Debit Sponsor endorses Merchant's activities, products, or services. Debit Sponsor and Merchant are and shall remain independent contractors of one another, and neither they, nor their respective individual employees, shall have or hold themselves out as having any power to bind the other to any third party. Nothing contained in this section 27 shall be construed to create or constitute a partnership, joint venture, employer-employee, or agency relationship between Debit Sponsor and Merchant.

27.3. If the Debit Sponsor's sponsorship of Merchant in any Network is terminated prior to the termination of the Card Services Agreement, Global Direct may assign Debit Sponsor's rights and obligations hereunder to a third party. All provisions in this section necessary to enforce the rights and obligations of the parties contained in this section 27 shall survive the termination of Debit Sponsor's debit sponsorship of Merchant under the Card Services Agreement. Debit Sponsor may assign this Card Services Agreement to any parent, subsidiary, affiliate, or successor-in-interest.

28. **MERCHANT ACCEPTANCE OF EBT TRANSACTIONS: ADDITIONAL TERMS AND CONDITIONS.** If Merchant accepts EBT transactions (as defined in section 2, Services Descriptions), Merchant agrees to issue Benefits to Recipients in accordance with the procedures specified herein, and in all documentation and user guides provided to Merchant by Global Direct, as amended from time-to-time (including but not limited to the Card Acceptance Guide which is incorporated into and made a part of this Card Services Agreement); and pursuant to the Quest Operating Rules (the "**Rules**"), as amended from time-to-time, issued by the National Automated Clearing House Association as approved by the Financial Management Service of the U.S. Treasury Department. Unless otherwise defined herein, all capitalized terms shall have the meanings ascribed them in the Rules. Merchant will provide each recipient a receipt of each Benefit issuance. Merchant will be solely responsible for Merchant's issuance of Benefits other than in accordance with authorizations. Merchant agrees to comply with all the requirements, laws, rules and regulations pertaining to the delivery of services to Benefit Recipients and Benefit Recipient confidentiality. If Merchant issues FS Benefits under this Card Services Agreement, Merchant represents and warrants to Global Direct that Merchant is an FNS-authorized "**Merchant**" (as such term is defined in the Rules) and is not currently suspended or disqualified by FNS. Merchant agrees to secure and maintain at its own expense all necessary licenses, permits, franchises, or other authorities required to lawfully effect the issuance and distribution of Benefits under this Card Services Agreement, including without limitation, any applicable franchise tax certificate and non-governmental contractor's certificate, and covenants that Merchant will not issue Benefits at any time during which Merchant is not in compliance with the requirements of any applicable law. Merchant agrees to hold Global Direct harmless from any costs of compliance or failure to comply with any such obligation by Merchant. Global Direct may terminate or modify the provision of Services to Merchant if any of Global Direct's agreements with government EBT agencies are terminated for any reason or if any party threatens to terminate services to Global Direct due to some action or inaction on the part of Merchant. If any of these Card Services Terms & Conditions are found to conflict with Federal or State law, regulation or policy of the Rules, these Card Services Terms & Conditions are subject to reasonable amendment by Global Direct, the State or its EBT Service Provider to address such conflict upon 90 days written notice to Merchant, provided that Merchant may, upon written notice, terminate the Card Services Agreement upon receipt of notice of such amendment. Nothing contained herein shall preclude the State from commencing appropriate administrative or legal action against Merchant or for making any referral for such action to any appropriate Federal, State, or local agency. Any references to "**State**" herein shall mean the State in which Merchant issues Benefits pursuant hereto. If Merchant issues Benefits in more than one State pursuant hereto, then the reference shall mean each such State severally, not jointly.

29. **DECLINE MINIMIZER SERVICES.** If Merchant elects to use Global Direct's Decline Minimizer Service (as defined below), the following terms apply. Merchant represents and warrants that its business is of such a nature that it periodically needs to receive updated cardholder account information and that Merchant does not belong to any high-risk categories as determined by any Card Schemes. In consideration of Merchant's payment of any fees and charges set forth herein, Global Direct agrees to provide to Merchant certain Card decline minimizer services facilitated by applicable card associations, which services are designed to assist merchants in recurring payment industries with maintenance of current cardholder account data (such services, the "**Decline Minimizer Services**"). The Decline Minimizer Services are subject to availability as determined by the card associations. Merchant acknowledges that a card association may terminate or suspend Global Direct's ability or right to provide the Decline Minimizer Services, and Global Direct may terminate its obligations with respect to the Decline Minimizer Service at any time upon notice to Merchant. The Decline Minimizer Services may be subject to additional terms, conditions, and/or fees, notice of which shall be provided to Merchant in accordance with this Card Services Agreement.

30. **CALLPOP OPENEDGE SERVICES.**

30.1. Global Direct offers hardware and services, which may include but are not limited to, phone/fax to VOIP smart box converter, phone analytics, two-way calling, call notes and call history, quick text for incoming and missed calls, reviews via text, text to pay, smart caller ID, reporting portal(s), and mobile application(s) among other things (collectively, the "**CallPop OpenEdge Services**") for Merchant's sole use with its internal business operations.

30.2. If Merchant elects to use Global Direct's CallPop OpenEdge Services (as defined above), the following terms apply. In consideration of Merchant's payment of the fees and charges set forth in the Merchant Application with respect to Global Direct's CallPop OpenEdge Services, and subject to the terms and conditions herein, Global Direct agrees to provide Merchant certain CallPop Services and hereby grants Merchant a limited, non-exclusive, non-sublicensable, non-transferable license in the United States of America to access and use the CallPop Open Edge Services (as defined above) solely for Merchant's internal business operations. Merchant shall not and shall not permit or authorize any other party to (a) decompile, disassemble, reverse engineer, or otherwise attempt to discern the source code of the CallPop OpenEdge Services; or (b) copy, modify, enhance, or otherwise create derivative works of the CallPop OpenEdge Services. Either party may terminate or suspend the CallPop OpenEdge Services without terminating the rest of the Card Services Agreement pursuant to the termination and/or suspension rights specified in the Card Services Agreement. Notwithstanding the foregoing, Global Direct may terminate its obligations with respect to the CallPop OpenEdge Services at any time upon notice to Merchant. The CallPop OpenEdge Services may be subject to additional terms, conditions, and/or fees, notice of which shall be provided to Merchant in accordance with this Card Services Agreement.

30.3. *Notwithstanding anything to the contrary herein, excepts as expressly provided herein, Global Direct makes no representation or warranty, express or implied with respect to the CallPop OpenEdge Services, including without limitation, any hardware provided in connection therewith. Global Direct specifically disclaims all warranties as to the merchantability, condition, design, or compliance with specifications or standards, and expressly disclaims all implied warranties, including without limitation implied warranties of merchantability, fitness for a particular use, or non-infringement of third party rights, with respect to the CallPop OpenEdge Services. Global Direct does not warrant that the CallPop OpenEdge Services will operate without interruption or on an error-free basis. Global Direct shall have not liability to Merchant for incidental, special, consequential, indirect or exemplary damages, including without limitation lost profits, revenues and business opportunities, or damages for injury to person or property, arising out of or in connection with the use by Merchant of the CallPop OpenEdge Services.*

31. **DISCOVER PROGRAM MARKS.** Merchant is hereby granted a limited non-exclusive, non-transferable license to use Discover brands, emblems, trademarks, and/or logos that identify Discover cards ("**Discover Program Marks**"). Merchant is prohibited from using the Discover Program Marks other than as expressly authorized in writing by Global Direct. Merchant shall not use the Discover Program Marks other than to display decals, signage, advertising and other forms depicting the Discover Program Marks that are provided to Merchant by Global Direct pursuant to this Card Services Agreement or otherwise approved in advance in writing by Global Direct. Merchant may use the Discover Program Marks only to promote the services covered by the Discover

Program Marks by using them on decals, indoor and outdoor signs, advertising materials and marketing materials; provided that all such uses by Merchant must be approved in advance by Global Direct in writing. Merchant shall not use the Discover Program Marks in such a way that customers could believe that the products or services offered by Merchant are sponsored or guaranteed by the owners of the Discover Program Marks. Merchant recognizes that it has no ownership rights in the Discover Program Marks and shall not assign to any third party any of the rights to use the Discover Program Marks.

32. **PAYPAL MARKS.** PayPal Marks means the brands, emblems, trademarks, and/or logos that identify PayPal Acceptance. Merchant shall not use the PayPal Marks other than to display decals, signage, advertising, and other forms depicting the PayPal Marks that are provided to Merchant by Global Direct pursuant to the Merchant Program or otherwise approved in advance in writing by Acquirer. Merchant may use the PayPal Marks only to promote the services covered by the PayPal Marks by using them on decals, indoor and outdoor signs, advertising materials and marketing materials; provided that all such uses by Merchant must be approved in advance by Global Direct in writing. Merchant shall not use the PayPal Marks in such a way that customers could believe that the products or services offered by Merchant are sponsored or guaranteed by the owners of the PayPal Marks. Merchant recognizes that it has no ownership rights in the PayPal Marks. Merchant shall not assign to any third party any of the rights to use the PayPal Marks. Merchant is prohibited from using the PayPal Marks, not permitted above, unless expressly authorized in writing by PayPal.

33. **AMERICAN EXPRESS CARD ACCEPTANCE.**

33.1. If Merchant accepts American Express transactions, Merchant hereby acknowledges and agrees that for purposes of acceptance of American Express, the American Express Guide is hereby incorporated by reference into this Card Services Agreement. In addition, Merchant agrees to comply with the terms of all other security and operational guides published by American Express from time to time, including the American Express Data Security Requirements. Merchant hereby authorizes Global Direct to submit American Express transactions to, and receive settlement from, American Express on behalf of Merchant. Merchant must accept the American Express card as payment for goods and services (other than those goods and services prohibited under the American Express Guide sold, or (if applicable) for charitable contributions made, at all of its establishments, except as expressly permitted by state statute. Merchant is jointly and severally liable for the obligations of Merchant's establishments under the Card Services Agreement. For the avoidance of doubt, "**cardholder**" as used in this Card Services Agreement shall include Card Members as defined in the American Express Guide.

33.2. Merchant hereby acknowledges and agrees that (i) Global Direct may disclose American Express Transaction Data (which for purposes of this section 33 shall have the same definition as "**Transaction Data**" in the American Express Guide), Merchant Data (as defined below), and other information about Merchant to American Express, (ii) American Express may use such information to perform its responsibilities in connection with the American Express Program, promote the American Express Network, perform analytics and create reports, and for any other lawful business purpose, including marketing purposes, and (iii) American Express may use the information obtained in this application at the time of setup to screen and/or monitor Merchant in connection with American Express Card marketing and administrative purposes. If Merchant has provided a wireless phone number in connection with this Card Services Agreement, Merchant hereby agrees that it may be contacted at that number and the communications sent may include autodialed text messages or automated prerecorded calls. If Merchant has provided a fax number, Merchant hereby agrees that it may be sent fax communications. To opt out of American Express-related marketing communications, Merchant may contact Global Direct customer service as described in this Card Services Agreement. For purposes of this section 33, "**Merchant Data**" means names, postal and email addresses, tax ID numbers, names and social security numbers of the authorized signer of Merchant and similar identifying information about Merchant. For clarification, Merchant Data does not include American Express Transaction Data.

33.3. Merchant hereby agrees that, if Merchant becomes a High Charge Volume Merchant (as defined below), Merchant will be converted from the American Express Program to a direct American Express Card acceptance relationship with American Express, and upon such conversion, (i) Merchant will be bound by American Express' then-current card acceptance agreement, and (ii) American Express will set pricing and other fees payable by Merchant for American Express Card acceptance. "**High Charge Volume Merchant**" for purposes of this section 33 means an American Express Program Merchant with either (i) greater than \$1,000,000 in

American Express charge volume in a rolling 12-month period or (ii) greater than \$100,000 in American Express charge volume in any 3 consecutive months. For clarification, if Merchant has multiple establishments, the American Express charge volume from all establishments shall be summed to together when determining whether Merchant has exceeded the thresholds above.

- 33.4. Merchant shall not assign to any third party any American Express-related payments due to it under this Card Services Agreement, and all indebtedness arising from American Express Charges (as defined below) will be for bona fide sales of goods and services (or both) at its establishments (as defined below) and free of liens, claims, and encumbrances other than ordinary sales taxes; provided, however, that Merchant may sell and assign future American Express transaction receivables to Global Direct, its affiliated entities and/or any other cash advance funding source that partners with Global Direct or its affiliated entities, without consent of American Express.
- 33.5. In connection with Merchants acceptance of American Express, Merchant agrees to comply with and be bound by, the rules and regulations imposed by the PCI Security Standards Council (including without limitation the PCI Data Security Standard). Merchant hereby agrees to report all actual or suspected Data Incidents (as such term is defined in the American Express Data Security Requirements) immediately to Global Direct and American Express immediately upon discovery thereof.
- 33.6. Merchant hereby agrees that American Express shall have third party beneficiary rights, but not obligations, to enforce the Card Services Agreement against Merchant to the extent applicable to American Express processing. Merchant's termination of American Express card acceptance shall have no direct or indirect effect on Merchant's rights to accept other card brands. To terminate American Express acceptance, Merchant may contact Global Direct customer service as described in this Card Services Agreement.
- 33.7. Without limiting any other rights provided herein, Global Direct shall have the right to immediately terminate Merchant's acceptance of American Express cards upon request of American Express. Merchant may not bill or collect from any American Express Card Member for any purchase or payment on the American Express card unless a chargeback has been exercised, Merchant has fully paid for such charge, and it otherwise has the right to do so. Merchant shall use the American Express brand and marks in accordance with the requirements set forth in the American Express Guide.

34. ELECTRONIC SIGNATURES.

- 34.1. Under the Electronic Signatures in Global and National Commerce Act (E-Sign), this Card Services Agreement and all electronically executed documents related hereto are legally binding in the same manner as are hard copy documents executed by hand signature when: (a) your electronic signature is associated with the Card Services Agreement and related documents, (b) you consent and intend to be bound by the Card Services Agreement and related documents; and (c) the Card Services Agreement is delivered in an electronic record capable of retention by the recipient at the time of receipt (i.e., print or otherwise store the electronic record). This Card Services Agreement and all related electronic documents shall be governed by the provisions of E-Sign.
- 34.2. By pressing Submit, you agree: (a) that the Card Services Agreement and related documents shall be effective by electronic means; (b) to be bound by the terms and conditions of this Card Services Agreement and related documents; (c) that you have the ability to print or otherwise store the Card Services Agreement and related documents; and (d) to authorize us to conduct an investigation of your credit history with various credit reporting and credit bureau agencies for the sole purpose of determining the approval of the applicant for merchant status or equipment leasing. This information is kept strictly confidential and will not be released.

35. SURCHARGES/OTHER FEES.

- 35.1. Merchant pricing appears in the Card Services Fee Schedule of the Merchant Application. T&E merchants (airline, car rental, cruise line, fast food, lodging, restaurant, travel agent, transportation) may have separate rates quoted for consumer and commercial (business) transactions. Transactions that do not clear as priced are subject to surcharges (as outlined in Merchant Application) that are billed back to you on your monthly statement. The most predominant market sectors and transactions types for surcharges appear in the Surcharge Addendum attached, however, such sectors and transaction

types are not comprehensive and are subject to change. Most surcharges can be avoided by using a product that supports authorization and market data requirements established by the card associations and that are subject to change from time to time. Some surcharges occur on specific types of cards (including without limitation Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, Mastercard Rewards Card, Mastercard World Card, Mastercard World Elite Card, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card, and "foreign" cards issued outside the United States). Unless your Card Services Fee Schedule specifically addresses commercial cards (i.e., Business Cards, Corporate Cards, Fleet Cards, GSA Cards, Purchase Cards), you will be billed back for the higher cost of acceptance of commercial cards, unless you are primarily a business-to-business supplier with corresponding pricing based on acceptance of commercial cards. The card associations require that information from the original authorization, including a lifecycle identifier, be retained and returned with subsequent authorizations and/or the settled transaction data. The card associations validate this information as part of the clearing and settlement process. If authorization data is not retained and returned at settlement, then the transaction will not clear as priced and will incur a surcharge. For more information concerning surcharging and to view market data, you may wish to check the Global Direct website (www.globalpaymentsinc.com) for best practices information and to license Global Access @dventure (GA@) or Business View for transaction detail review.

35.2. The items listed in this section 35 are not and are not intended to be a comprehensive list of all instances in which surcharges may apply. Surcharges may apply in additional situations. All surcharges may include additional fees assessed by the applicable card association and Member or Global Direct.

35.3. In addition, Merchant may be assessed additional fees which will be in addition to the fees stated on the Merchant Application, including the following:

35.4. Merchant will also be assessed: (a) Cross-Border fees and a U.S. Acquirer Support fee for international Mastercard and Maestro transactions; (b) an International Service Assessment fee and International Acquirer fee for international Visa transactions; and (c) an International Processing fee and International Service fee for international Discover transactions. These fees, which are applicable to transactions between Merchant and a non-U.S. Mastercard, Maestro, Visa, American Express, or Discover cardholder will be displayed as a separate item on Merchant's monthly statement and may include fees assessed by both the applicable card association and Member or Global Direct.

35.5. Merchant will also be assessed per transaction access or participation fees and assessment rates for Visa, Mastercard, American Express, Discover and PayPal transactions, which will be displayed as a separate item on Merchant's monthly statement and may include fees by both the applicable card association and Member or Global Direct.

35.6. Merchant will also be assessed a Discover Network Authorization Fee.

35.7. Merchant may also be assessed a PCI DSS Compliance fee, which will appear as a separate item on Merchant's monthly statement. This fee is assessed by Member and Global Direct in connection with Member and Global Direct's efforts to comply with the PCI Data Security Standard and does not ensure Merchant's compliance with the PCI Data Security Standard or any law, rule or regulation related to cardholder data security. The payment of such fee shall not relieve Merchant of its responsibility to comply with all rules and regulations related to cardholder data security, including without limitation the PCI Data Security Standard. Merchant may also be assessed a PCI DSS Non-Compliance fee until they validate compliance or confirm they are using a PA DSS Validated payment application.

35.8. Merchant will also be assessed the following fees on or related to Visa transactions: the Visa Misuse of Authorization System fee, which will be assessed on authorizations that are approved but never settled with the Merchant's daily batch, the Visa Zero Floor Limit Fee, which will be assessed on settled transactions that were not authorized, the Visa Zero Dollar Verification fee, which will be assessed on transactions where Merchant requested an address verification response without an authorization, the Visa Transaction Integrity fee, which will be assessed on Visa signature debit and prepaid transactions that fail to meet processing and transaction standards defined by Visa, and a monthly fee based on the number of card present Merchant

locations by Merchant taxpayer identification number and/or all Visa volume processed by a Merchant's taxpayer identification number. Merchant will also be assessed a Mastercard CVC2 Transaction fee and the Mastercard Misuse of Authorization System fee, which will be assessed on authorizations that are approved but never settled with the Merchant's daily batch or not properly reversed within 120 days, and an acceptance and licensing fee that will be applied to the Merchant's total U.S. Mastercard sales volume. These fees will be displayed as separate items on Merchant's monthly statement, provided that the acceptance and licensing fee may be included with Merchant's Mastercard assessment fees, and may include fees assessed by both the applicable card association and Member or Global Direct.

SURCHARGE ADDENDUM FOR PREDOMINANT MARKET SECTORS

Retail/Restaurant Electronic Merchant

If you are a Retail Merchant or a Restaurant Merchant with retail-only pricing (no Business Card Rate) and utilize a certified terminal product or electronic system or the payment application provided by Global Direct or its partner, which is designed for authorization and settlement through Global Direct, each consumer card transaction you submit which meets all of the following requirements will be priced at the rate quoted. Each transaction not processed as outlined, including without limitation retail commercial card transactions in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, Mastercard Rewards Card, Mastercard World Card, Mastercard World Elite Card, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card and all Commercial Cards, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a single electronic authorization with magnetic strip read or contactless data capture (electronic imprint) at the time of sale. Obtain a single electronic authorization and settle for authorized amounts.
- Obtain a cardholder signature (unless transaction is eligible for No Signature Required [NSR] program). Settle and transmit batches same day via your terminal/electronic system.
- The electronic authorization amount must be equal to the transaction amount on all Visa debit card transactions unless a Restaurant (MCC 5812), Fast Food (MCC 5814), Service Station (MCC 5541) or, Bar/Tavern (MCC 5513), Beauty/Barber Shop (MCC 7230), or Taxi/Limousines (MCC 4121).
- The electronic authorization amount must be equal to the transaction amount on Discover retail transactions except that Taxi Limousines (MCC 4121) and Beauty/Barber Shop (MCC 7230) merchant transactions may vary up to 20%. Restaurant (MCC 5812), Fast Food (MCC 5814), Service Station (MCC 5541) or Bar/Tavern (MCC 5513) transactions may vary by more than 20% from the electronic authorization without incurring surcharges.

Restaurant Electronic Merchant

If you are a Restaurant Merchant MCC 5812 or Fast Food Merchant MCC 5814 and utilize a certified terminal product or electronic system for authorization and settlement through Global Direct, each consumer card transaction you submit which meets all of the following requirements will be priced at the rate quoted. Each transaction not processed as outlined, in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, Mastercard Rewards Card, Mastercard World Card, Mastercard World Elite Card, Discover Rewards Card, Discover Premium Card, and Discover Premium Plus Card will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Commercial Card transactions that meet these requirements will be subject to the Business Card rate quoted in the Fee Schedule. Commercial Card transactions not processed in accordance with these requirements will be subject to the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a single electronic authorization with magnetic strip read or contactless data capture (electronic imprint) at the time of sale. Obtain a cardholder signature (unless transaction is eligible for NSR program).
- Settle and transmit batches same day via your terminal/electronic system.

Supermarket Electronic Merchant

If you are an approved (certified) supermarket merchant and utilize a terminal or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets all of the following requirements will be priced at the rate(s) quoted for Supermarket Credit Card and Supermarket Check Card. Each transaction not processed as outlined, in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, Mastercard Rewards Card, Mastercard World Card, Mastercard World Elite, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card and commercial cards, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a magnetic strip read (card swipe/contactless data capture/electronic imprint) at the time of sale. Obtain a single electronic authorization and settle for authorized amounts.

- Obtain a cardholder signature (unless transaction is eligible for NSR program). Settle and transmit batches same day via your terminal/electronic system.
- The electronic authorization amount must be equal to the transaction amount on all Visa debit card transactions.

Emerging Market Electronic Merchant

If you qualify as an Emerging Market Merchant (as defined by Association guidelines from time to time) and utilize a terminal or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets all the following requirements will be priced at the rates quoted. Any other transaction, including commercial card transactions, Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, Mastercard Rewards Card, Mastercard World Card, Mastercard World Elite Card, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card, and non-magnetic stripe read foreign transactions will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. In addition, each Visa transaction not processed as outlined, but transmitted same day or next day via your terminal/electronic system, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a single electronic authorization.
- Settle and transmit batches same day via your terminal/electronic system. Provide market data as required. See Note.

NOTE: If card is not present and a magnetic stripe read does not occur, then Merchant may be required to comply with "**Direct Marketer**" market data requirements including AVS request on cardholder billing address at time of authorization. If card is present and cardholder signature is obtained, however the magnetic stripe is damaged, then Merchant may be required to obtain AVS match on cardholder billing address zip code.

MOTO Electronic Merchant

If you are a MOTO Merchant (non-magnetic swipe read transactions), and utilize a certified terminal product or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets all of the following requirements will be priced at the rate quoted. Any other transaction, including all foreign transactions and commercial card transactions in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, Mastercard Rewards Card, Mastercard World Card, Mastercard World Elite Card, Discover Rewards Card, Discover Premium Card, and Discover Premium Plus Card will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain an electronic authorization and settle for authorized amounts (one reversal permitted on Visa transactions to make authorization amount equal to settle amount).
- Address Verification Request in authorization on cardholder billing address. For Discover transactions, Merchant must obtain full address verification request on street number and/or 9 digit postal code.
- CID verification for Discover merchants on non-recurring transactions. Purchase date (settled date) is ship date.
- Send order number with each transaction.
- Settle and transmit batches same day via your terminal/electronic system.
- Send level 3 data (line item detail, sales tax, customer code) with every eligible commercial card transaction.

NOTE: Card Not Present transactions involving one-time, recurring, or installment bill payment transactions are subject to additional card association requirements which must be complied with to avoid surcharges. Electronic commerce transaction requirements are also subject to additional card association requirements which must be complied with to avoid surcharges. Please refer to Card Acceptance Guide for additional requirements.

NOTE: Transactions which utilize our TouchTone Capture system for authorizations and settlement, settle beyond 48 hours, or are not transmitted via the TouchTone Capture system, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

Public Sector Electronic Merchant

If you are an approved (certified) public sector merchant and utilize a terminal or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets all of the following requirements will be priced at the rate(s) quoted for Public Sector. Each transaction not processed as outlined, in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, Mastercard Rewards Card, Mastercard World Card, Mastercard World Elite, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card and commercial cards, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a magnetic strip read (card swipe/contactless data capture/electronic imprint) at the time of sale. Obtain a single electronic authorization and settle for authorized amounts.
- Obtain a cardholder signature (unless transaction is eligible for NSR program). Settle and transmit batches same day via your terminal/electronic system.
- The electronic authorization amount must be equal to the transaction amount on all Visa debit card transactions.

Purchase Card Electronic Merchant

If you are a Purchase Card Merchant (non-magnetic swipe read transactions) and utilize a certified terminal product or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets the following requirements will be priced at the rate quoted. Each Visa transaction not processed as outlined, but transmitted same day or next day via your terminal/electronic system, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Each Visa business and commercial card transaction will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Any other transaction that does not meet the following requirements, including without limitation foreign transactions, tax-exempt Visa Commercial transactions, Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, Mastercard Rewards Card, Mastercard World Card, Mastercard World Elite Card, Discover Rewards Card, Discover Premium Card and Discover Premium Plus Card will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain an electronic authorization and settle for authorized amounts (one reversal permitted on Visa transactions to make authorization amount equal to settled amount).
- Address Verification Request in authorization on cardholder billing address. Purchase date (settled date) is ship date.
- Send order number (customer code) with each transaction. Send tax amount with every transaction.
- Send Level 3 data (line item detail) with every eligible commercial card transaction. Sales tax exempt transactions will not be considered to meet these requirements unless they include Level 3 data (line item detail).
- Settle and transmit batches same day via your terminal/electronic system.

Lodging/Auto Rental Electronic Merchant

If you are a Lodging or Auto Rental Merchant utilizing a terminal or electronic system for authorization and settlement through Global Direct, each consumer card transaction you submit which meets the following requirements will be priced at the rate quoted. Each transaction not processed as outlined, including without limitation non-magnetic stripe read foreign transactions, and transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, Mastercard Rewards Card, Mastercard World Card, Mastercard World Elite Card, Discover Rewards Card, Discover Premium Card, and Discover Premium Plus Card will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Commercial Card transactions that meet these requirements will be subject to the Business Card rate quoted in

the Fee Schedule. Commercial Card transactions not processed in accordance with these requirements will be subject to the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a magnetic swipe read (card swipe/electronic imprint) at the time of check-in.
- Obtain additional electronic authorizations or send partial reversals to bring total authorized amount within 15% of settled amount. Authorizations must meet card association requirements.
- Obtain a cardholder signature for final transaction amount. Purchase Date is hotel check-out date/auto return date.
- Length of guest stay/rental in initial authorization.
- Hotel Folio/Rental Agreement Number and check-in date/check-out date transmitted with each transaction.
- Additional market data may be required for commercial card transactions to avoid surcharges. Lodging merchants who: (a) accept credit cards for advance payment; (b) guarantee reservations using a credit card; or (c) provide express check-out services to guests, must comply with additional card association requirements for these services in addition to additional authorization and settlement market data requirements. Lodging merchants who subject charges to final audit and bill for ancillary/additional charges must comply with additional bank card association requirements for these services in addition to additional authorization and settlement market data requirements to avoid surcharges. These transactions may also be subject to the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Please see Card Acceptance Guide for requirements and best practices for these transactions.

Paper Deposit Merchant

Non-terminal/electronic paper deposit transactions will be priced at the rate quoted in the Card Services Fee Schedule of the Merchant Application.

Debit Card Merchant

Each debit card transaction will be assessed the network's acquirer fee in addition to the debit card per item fee quoted in the Card Services Fee Schedule of the Merchant Application.

Card Present / Mag Stripe Failure:

A magnetic stripe read is also referred to as an electronic imprint. If the magnetic stripe is damaged, then other validation means may be required to protect against counterfeit cards and merchant must obtain a manual imprint. Most products, including the payment application, if any, will prompt for cardholder billing zip code and perform an AVS check for a zip code match. CID verification is recommended for Discover key-entered transactions. Key-entered retail transactions are subject to higher interchange and surcharges.

The foregoing information regarding surcharging is not comprehensive and is subject to change by the card association. Additional or different rates or fees may apply based on the details of a subject transaction.

All questions regarding Card Services should be referred to Global Payments Direct Inc. – 3550 Lenox Road NE, Suite 3000, Atlanta, GA. 30326, or call: 1-800-367-2638. Note: Billing disputes must be forwarded, in writing, to Customer Service within 60 days of the date of the statement and/or notice.

Contact information for Member is listed in the Merchant Application.

Global Payments Direct Inc. is a registered ISO of BMO Harris Bank N.A. and Wells Fargo Bank, N.A.

Debit sponsorship is provided by Old Line Bank - 1525 Pointer Ridge Place, Bowie, MD. 20716, 1(800)617-7511.

CARD SERVICES TERMS & CONDITIONS

PLEASE READ SECTION 17 ("DISPUTE RESOLUTION") CAREFULLY AS IT RELATES TO ARBITRATION AND CLASS ACTIONS

1. GENERAL.

The "Card Services Agreement" consists of these Card Services Terms & Conditions and the Merchant Application and is made by and among Merchant (or "you"), Global Payments Direct, Inc. ("Global Direct"), and Member (as defined below). The provisions in the Card Services Agreement are applicable to Merchant if Merchant has signed the appropriate space in the Acceptance of Terms & Conditions/Merchant Authorization section of the Merchant Application. The member bank identified in the Merchant Application ("Member") is a member of Visa USA, Inc. ("Visa") and MasterCard International, Inc. ("MasterCard"). Global Direct is a registered independent sales organization of Visa, a member service provider of MasterCard, a registered Program Participant of American Express Travel Related Services Company, Inc. ("American Express"), and a registered acquirer for Discover Financial Services LLC ("Discover"). Any references to the Debit Sponsor shall refer to the debit sponsor identified below.

Merchant and Global Direct agree that the rights and obligations contained in these Card Services Terms and Conditions do not apply to the Member with respect to American Express, Discover and PayPal transactions and Switched Transactions (as defined below). To the extent Merchant accepts Discover cards, the provisions in this Agreement with respect to Discover apply if Merchant does not have a separate agreement with Discover. In such case, Merchant will also be enabled to accept JCB, China Union Pay, Diner's Club and, for card present transactions, PayPal cards under the Discover network and such transactions will be processed at the same fee rate as Merchant's Discover transactions are processed. To the extent Merchant accepts Discover cards and has a separate agreement with Discover, Discover and PayPal card transactions shall be processed as Switched Transactions (as defined below). To the extent Merchant accepts American Express cards, the provisions in this Agreement with respect to American Express apply if Merchant does not have a separate agreement with American Express.

Under the terms of the Card Services Agreement, Merchant will be furnished with the services and products, including any software, described herein and in the Merchant Application and selected by Merchant therein (collectively and individually, as applicable, the "Services"). During the term of the Card Services Agreement, Global Direct will be the sole and exclusive provider of all card Services to Merchant. Any Merchant accepted by Global Direct for card processing services agrees to be bound by the Card Services Agreement, including the terms of the Merchant Application and these Card Services Terms & Conditions as may be modified or amended in the future. A MERCHANT'S SUBMISSION OF A TRANSACTION TO GLOBAL DIRECT SHALL BE DEEMED TO SIGNIFY MERCHANT'S ACCEPTANCE OF THE CARD SERVICES AGREEMENT, INCLUDING THE TERMS AND CONDITIONS HEREIN.

Except as expressly stated in the first three paragraphs of Section 13, all terms and conditions of this Card Services Agreement shall survive termination

2. SERVICE DESCRIPTIONS.

Credit Card Processing Services: Global Direct's credit card processing services consist of authorization and electronic draft capture of credit card transactions; outclearing of such transactions to the appropriate card associations and/or issuers (e.g., Visa, MasterCard, American Express, Diners, Discover); settlement; dispute resolution with cardholders' banks; and transaction-related reporting, statements and products. From time to time under this Card Services Agreement, upon Merchant's request, Global Direct may facilitate the transmission of certain payment card transactions ("Switched Transactions") to the respective card issuers, including but not limited to American Express®, Diners Club® and various fleet, private label and commercial cards. Switched Transactions require Global Direct's prior written approval and are subject to applicable pricing; Global Direct does not purchase the indebtedness associated with Switched Transactions.

EBT Transaction Processing Services: Global Direct offers electronic interfaces to Electronic Benefits Transfer ("EBT") networks for the processing of cash payments or credits to or for the benefit of benefit recipients ("Recipients"). Global Direct will provide settlement and switching services for various Point of Sale transactions initiated through Merchant for the authorization of the issuance of the United States Department of Agriculture, Food and Nutrition Services ("FNS") food stamp benefits ("FS Benefits") and/or government delivered cash assistance benefits ("Cash Benefits," with FS Benefits, "Benefits") to Recipients through the use of a state-issued card ("EBT Card").

Provisions regarding debit card services are set forth in Section 27 below.

With respect to Visa and MasterCard products, Merchant may elect to accept credit cards or debit/prepaid cards or both. Merchant shall so elect on the Merchant Application being completed contemporaneously herewith. Merchant agrees to pay and Merchant's account(s) will be charged pursuant to Section 5 of this Card Services Agreement for any additional fees incurred as a result of Merchant's subsequent acceptance of transactions with any Visa or MasterCard product that it has elected not to accept.

3. PROCEDURES.

Merchant will permit holders of valid cards bearing the symbols of the cards authorized to be accepted by Merchant hereunder to charge purchases or leases of goods and services and the debt resulting therefrom shall be purchased hereunder, provided that the transaction complies with the terms of this Card Services Agreement. All indebtedness submitted by Merchant for purchase will be evidenced by an approved sales slip. Merchant will not present for purchase any indebtedness that does not arise out of a transaction between a cardholder and Merchant. Merchant agrees to follow the Card Acceptance Guide which is incorporated into and made part of this Card Services Agreement, and to be bound by the operating regulations, requirements, and rules of Visa, MasterCard, American Express, Discover, PayPal and any other card association or network organization covered by this Card Services Agreement, as any of the above referenced documents may be modified and amended from time to time. Merchant acknowledges that the Card Acceptance Guide is located on Global Direct's website at www.globalpaymentsinc.com. Without limiting the generality of the foregoing, Merchant agrees to comply with and be bound by, and to cause any third party who provides Merchant with services related to payment processing or facilitates Merchant's ability to accept credit and debit cards and who is not a party to this Card Services Agreement to comply with and be bound by, the rules and regulations of Visa, MasterCard, American Express, Discover, PayPal and any other card association or network organization related to cardholder and transaction information security, including without limitation, all rules and regulations imposed by the Payment Card Industry (PCI) Security Standards Council (including without limitation the PCI Data Security Standard), Visa's Cardholder Information Security Program, MasterCard's Site Data Protection Program, and Payment Application Best Practices. Merchant also agrees to cooperate at its sole expense with any request for an audit or investigation by Global Direct, Member, a card association or network organization in connection with cardholder and transaction information security.

Without limiting the generality of the foregoing, Merchant agrees that it will use information obtained from a cardholder in connection with a card transaction solely for the purpose of processing a transaction with that cardholder or attempting to re-present a chargeback with respect to such transaction. Merchant will indemnify and hold Global Direct and Member harmless from any fines and penalties issued by Visa, MasterCard, American Express, Discover, PayPal or any card association or network organization and any other fees and costs arising out of or relating to the processing of transactions by Global Direct and Member at Merchant's location(s) and will reimburse Global Direct for any losses incurred by Global Direct with respect to any such fines, penalties, fees and costs.

Without limiting the generality of any other provision of this Card Services Agreement, Merchant also agrees that it will comply with all applicable laws, rules and regulations related to both (a) the truncation or masking of cardholder numbers and expiration dates on transaction receipts from transactions processed at Merchant's location(s), including without limitation the Fair and Accurate Credit Transactions Act and applicable state laws ("Truncation Laws") and (b) the collection of personal information from a cardholder in connection with a card transaction, including all applicable state laws ("Laws on Collection of Personal Information"). As between Merchant, on the one hand, and Global Direct and Member, on the other hand, Merchant shall be solely responsible for complying with all Truncation Laws and Laws on Collection of Personal Information and will indemnify and hold Global Direct and Member harmless from any claim, loss or damage resulting from a violation of Truncation Laws or Laws on Collection of Personal Information as a result of transactions processed at Merchant's location(s).

Global Direct may, from time to time, issue written directions (via mail or Internet) regarding procedures to follow and forms to use to carry out this Card Services Agreement. These directions and the terms of the forms are binding as soon as they are issued and shall form part of these Card Services Terms & Conditions. Such operating regulations and rules may be reviewed upon appointment at Global Direct's designated premises and Merchant acknowledges that it has had the opportunity to request a review and/or review such operating regulations and rules in connection with its execution of this Card Services Agreement.

4. MARKETING.

Merchant shall adequately display the card issuer service marks and promotional materials supplied by Global Direct. Merchant shall cease to use or display such

service marks immediately upon notice from Global Direct or upon termination of this Card Services Agreement.

5. PAYMENT, CHARGES AND FEES.

Fees and charges payable by Merchant for all products, services and applications, whether provided by Global Direct or by a third party through Global Direct, shall be as set forth in the Merchant Application (exclusive of taxes, duties and shipping and handling charges). Merchant shall at all times maintain one or more commercial checking accounts with Member or with another financial institution of Merchant's choice acceptable to Member and Global Direct that belongs to the Automated Clearing House ("ACH") network and which can accept ACH transactions Merchant will be paid for indebtedness purchased under this Card Services Agreement by credit to Merchant's account(s). Merchant's account(s) will be credited for the gross amount of the indebtedness deposited less the amount of any credit vouchers deposited. Merchant shall not be entitled to credit for any indebtedness that arises out of a transaction not processed in accordance with the terms of this Card Services Agreement or the rules and regulations of a card association or network organization. Availability of any such funds shall be subject to the procedures of the applicable financial institution. Chargebacks and adjustments will be charged to Merchant's account(s) on a daily basis. Merchant agrees to pay and Merchant's account(s) will be charged for the discount, fees, product service costs, chargebacks, and other fees and charges described in this Card Services Agreement. Merchant also agrees to pay and Merchant's account(s) will be debited for all fees, arbitration fees, fines, penalties, etc. charged or assessed by the card associations or network organizations on account of or related to Merchant's processing hereunder, including without limitation with regards to any third party who provides Merchant with services related to payment processing or facilitates Merchant's ability to accept credit and debit cards and who is not a party to this Card Services Agreement. If any type of overpayment to Merchant or other error occurs, Merchant's account(s) may be debited or credited, without notice, and if Merchant's account(s) do not contain sufficient funds, Merchant agrees to remit the amount owed directly to Global Direct. Merchant agrees not to, directly or indirectly, prevent, block or otherwise preclude any debit by Global Direct or Member to Merchant's account which is permitted hereunder. Merchant represents and warrants that no one other than Merchant has any claim against such indebtedness except as authorized in writing by Member and Global Direct. Merchant hereby assigns to Member and Global Direct all of its right, title, and interest in and to all indebtedness submitted hereunder, agrees that Member and Global Direct have the sole right to receive payment on any indebtedness purchased hereunder, and further agrees that Merchant shall have no right, title or interest in any such funds, including any such funds held in a Reserve Account (as defined below).

6. EQUIPMENT AND SUPPLIES/THIRD PARTY SERVICES.

Merchant agrees that it will not acquire any title, copyrights, or any other proprietary right to any advertising material; leased equipment including imprinters, authorization terminals, card reader hardware or printers; software; credit card authenticators; unused forms (online or paper); and Merchant deposit plastic cards provided by Global Direct in connection with this Card Services Agreement. Merchant will protect all such items from loss, theft, damage or any legal encumbrance and will allow Global Direct and its designated representatives reasonable access to Merchant's premises for their repair, removal, modification, installation and relocation. Merchant acknowledges that any equipment or software provided under this Card Services Agreement is embedded with proprietary technology ("Software"). Merchant shall not obtain title, copyrights or any other proprietary right to any Software. At all time, Global Direct or its suppliers retain all rights to such Software, including but not limited to updates, enhancements and additions. Merchant shall not disclose such Software to any party, convey, copy, license, sublicense, modify, translate, reverse engineer, decompile, disassemble, tamper with, or create any derivative work based on such Software, or transmit any data that contains software viruses, time bombs, worms, Trojan horses, spyware, disabling devices, or any other malicious or unauthorized code. Merchant's use of such Software shall be limited to that expressly authorized by Global Direct. Global Direct's suppliers are intended third party beneficiaries of this Card Services Agreement to the extent of any terms herein pertaining to such suppliers' ownership rights; such suppliers have the right to rely on and directly enforce such terms against Merchant.

The operating instructions or user guides will instruct Merchant in the proper use of the terminals, other hardware or payment application(s), and Merchant shall use and operate the terminals, other hardware or payment application(s) only in such manner. If Merchant has purchased the relevant maintenance/help desk service hereunder, Merchant will promptly notify Global Direct of any equipment malfunction, failure or other incident resulting in the loss of use of the equipment or software or need for repair or maintenance, whereupon Global Direct will make the necessary arrangements to obtain required maintenance or replacement software or hardware. Merchant is responsible for shipping costs. Merchant shall cooperate with Global Direct in its attempt to diagnose any problem with the terminal, other hardware or payment application(s). In the event the Merchant's terminal requires additional Software, Merchant is obligated to cooperate and participate in a dial in down line load procedure. With respect to any item of equipment leased to Merchant by Global Direct, Merchant will not be liable for normal wear and tear, provided, however, that Merchant will be liable to Global Direct in the event that any leased item of equipment is lost, destroyed, stolen or rendered inoperative. Merchant will indemnify Global Direct against any loss arising out of damage to or destruction of any item of equipment or software provided hereunder for any cause whatsoever. Merchant also agrees to hold harmless and indemnify Global Direct for any costs, expenses, and judgments Global Direct may suffer, including reasonable attorney's fees, as a result of Merchant's use of the equipment or software provided hereunder. Any unused equipment in its original packaging purchased from Global Direct hereunder may be returned to Global Direct at Merchant's expense within sixty (60) days of receipt. Merchant shall receive a refund of any money paid in connection therewith subject to a re-stocking fee of an amount equal to 20 percent of the total purchase price for the returned equipment. No refunds shall be issued for any equipment returned after sixty (60) days.

Merchant acknowledges that some of the services and applications to be provided by Global Direct and Member hereunder may be provided by third parties. Merchant agrees that except for its right to utilize such services in connection with this Card Services Agreement, it acquires no right, title or interest in any such services. Merchant further agrees that it has no contractual relationship with any third party providing services under this Card Services Agreement and that Merchant is not a third party beneficiary of any agreement between Global Direct or Member, as applicable, and such third party. Merchant may not resell the services of any third party providing services under this Card Services Agreement to any other party.

7. FINANCIAL INFORMATION.

Merchant agrees to furnish Global Direct and Member such financial statements and information concerning Merchant, its owners, principals, partners, proprietors or its affiliates as Global Direct or Member may from time to time request. Global Direct and Member, or their duly authorized representatives, may examine the books and records of Merchant, including records of all indebtedness previously purchased or presented for purchase. Merchant agrees to retain copies of all paper and electronic sales slips and credit slips submitted to Global Direct for a period of two years from submission, or such longer period of time as may be required by the **operating rules or regulations of the card associations or network organizations, by law, or by Global Direct as specifically requested in writing in individual cases.**

8. CHANGE IN BUSINESS.

Merchant agrees to provide Global Direct and Member sixty (60) days prior written notice of its (a) transfer or sale of any substantial part (ten percent (10%) or more) of its total stock, assets and/or to liquidate; or (b) change to the basic nature of its business, or (c) provided that Merchant has not indicated on the Merchant Application that it accepts mail order, telephone order, or internet-based transactions, conversion of all or part of the business to mail order sales, telephone order sales, Internet-based sales or to other sales where the card is not present and swiped through Merchant's terminal or other card reader. Upon the occurrence of any such event, the terms of this Card Services Agreement may be modified to address issues arising therefrom, including but not limited to requirements of applicable card associations or network organizations.

9. TRANSFERABILITY.

This Card Services Agreement is not transferable by Merchant without the written consent of Global Direct and Member. Any attempt by Merchant to assign its rights or to delegate its obligations in violation of this paragraph shall be void. Merchant agrees that the rights and obligations of Global Direct hereunder may be transferred by Global Direct without notice to Merchant. Merchant agrees that the rights and obligations of Member hereunder may be transferred to any other member without notice to Merchant. Merchant acknowledges that the transferable rights of Global Direct and Member hereunder shall include, but shall not be **limited to, the authority and right to debit the Merchant's account(s) as described herein.**

10. WARRANTIES AND REPRESENTATIONS.

Merchant warrants and represents to Global Direct and Member: (a) that each sales transaction delivered hereunder will represent a bona fide sale to a cardholder by Merchant for the amount shown on the sales slip as the total sale and constitutes the binding obligation of the cardholder, free from any claim, demand, defense, setoff or other adverse claim whatsoever; (b) that each sales slip or other evidence of indebtedness will accurately describe the goods and services which have been sold and delivered to the cardholder or in accordance with his instructions; (c) that Merchant will comply fully with all federal, state and local laws, rules and regulations applicable to its business; (d) that Merchant will fulfill completely all of its obligations to the cardholder and will resolve any customer dispute or complaint directly with the cardholder; (e) that the signature on the sales slip will be genuine and authorized by cardholder and not forged or unauthorized; (f) that the sales transaction shall have been consummated and the sales slip prepared in full compliance with the provisions of the Card Acceptance Guide and the operating regulations and rules of the applicable card association or network organization, as amended from time to time; (g) provided that Merchant has not indicated on the Merchant Application that it accepts mail order, telephone order, or internet-based transactions, that none of the sales transactions submitted hereunder represent sales by telephone, or mail, or Internet, or where the card is not physically present at the Merchant's location and swiped through Merchant's terminal, unless Merchant is specifically authorized in writing by Global Direct to submit such sales slips for purchase, (h) to the extent Merchant has indicated on the Merchant Application that it accepts mail order, telephone order, or internet-based transactions, Merchant shall not submit such a transaction to Global Direct and Member for processing until the goods and/or services are shipped or performed, as applicable, unless otherwise permitted by the card associations or network organizations, (i) that none of the sales transactions submitted hereunder for purchase represent sales to any principal, partner, proprietor, or owner of Merchant, (j) that, without limiting the generality of the foregoing, each sales transaction submitted hereunder and the handling, retention, and storage of information related thereto, will comply with the rules and regulations of Visa, MasterCard, American Express, Discover, PayPal and any other card association or network organization related to cardholder and transaction information security, including without limitation Payment Card Industry (PCI) Data Security Standards, Visa's Cardholder Information Security Program and MasterCard's Site Data Protection Program, and (k) that all of the information contained in this Card Services Agreement (including the Merchant Application) is true and correct. In the event that any of the foregoing warranties or representations is breached, the affected sales slips or other indebtedness may be refused, or prior acceptance revoked and charged back to the Merchant. Furthermore, if Merchant submits for purchase hereunder a sales transaction that is not the result of a sale of Merchant's goods or services offered to the general public or if Merchant submits any sales transactions for purchase hereunder which represents a sale to any principal, partner, proprietor, or owner of Merchant, such sales transaction may be refused or charged back.

Merchant must notify Global Direct if Merchant elects to use the terminal service of American Express, Novus, or any other third-party provider. If Merchant elects to use a third-party terminal provider, that provider becomes Merchant's agent for the delivery of card transactions to Global Direct via the applicable card-processing network. Global Direct and Member shall have no responsibility for or liability in connection with any hardware, software or services Merchant receives from a third party agent, even if Global Direct collects monies with respect to such hardware, software or services. Neither Global Direct nor Member makes any representation or warranty with respect to such agent's access to or ability to integrate with the products, services, and systems of Global Direct and any such access or ability may terminate at any time and Global Direct shall have no obligation to advise Merchant of such termination. Merchant agrees to assume full responsibility and liability for any failure of such agent to comply with the operating regulations and rules of the applicable card association or network organization, including without limitation any violation, which results in a chargeback to the Merchant. Global Direct and Member have no responsibility for any card transactions until it receives data for the card transaction in the format required by Global Direct. Merchant also agrees that the obligation hereunder to reimburse the Merchant for the value of the card transactions captured by an agent is limited to the value of the transactions (less applicable fees) received by the card-processing network from the agent.

NEITHER MEMBER, NOR GLOBAL DIRECT, NOR ANY SUPPLIER MAKES ANY REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO ANY TERMINAL, ANY EQUIPMENT, SOFTWARE OR SERVICES LEASED, SOLD OR OTHERWISE FURNISHED IN CONNECTION THEREWITH, OR ANY OF THE SERVICES FURNISHED HEREUNDER.

11. INDEMNITY.

Merchant agrees to satisfy directly with the cardholder any claim or complaint arising in connection with the card sale, regardless of whether such claim or complaint is brought by the cardholder, Global Direct, or another party. Merchant agrees to indemnify defend and hold Global Direct, Member and their respective parent companies, subsidiaries and affiliates (including, without limitation, the respective officers, directors, employees, attorneys, shareholders, representatives and agents of all of the foregoing) harmless from and against any and all liabilities, judgments, arbitration awards, settlements, actions, suits, claims, demands, losses, damages, costs (including, but not limited to, court costs and out of pocket costs and expenses), expenses of any and every type, litigation expenses, and attorneys' fees, including, but not limited to, attorneys' fees incurred in any and every type of suit, proceeding, or action, including but not limited to, bankruptcy proceedings, in connection with, by virtue of, or arising from, either directly or indirectly: (a) any card transaction that does not conform to the requirements of this Card Services Agreement, the rules and regulations of any card association or applicable laws; (b) any card transaction or any act or omission of Merchant in connection with a cardholder; (c) Merchant's breach or default or an alleged breach or default of or under any term, covenant, condition, representation, warranty, obligation, undertaking, promise or agreement contained in this Card Services Agreement or in any agreement (whether oral or written) with any cardholder, any agreement with any card association, or in any other agreement with Member or Global Direct, any breach or threatened breach by Merchant of the card association rules and regulations or any violation by Merchant of laws, rules and regulations applicable to Merchant; (d) the rescission, cancellation or avoidance of any card transaction, by operation of law, adjudication or otherwise; (e) any claim, counterclaim, complaint, dispute or defense, including, without limitation claims brought by Merchant, whether or not well founded, with respect to this Card Services Agreement or a card transaction; (f) damages, including, without limitation, those for death or injury caused by the good or service purchased with the card; or (g) for all web based, Internet or electronic commerce transactions including Merchant's insecure transmission of card transaction data and/or storage of cardholder information. For purposes of this Agreement, including the foregoing indemnities, Merchant is responsible and liable for the acts and omissions of its employees, agents and representatives (whether or not acting within the scope of their duties).

12. LIMITATION OF LIABILITY.

- 12.1 NEITHER MEMBER NOR GLOBAL DIRECT SHALL BE LIABLE FOR FAILURE TO PROVIDE THE SERVICES OR DELAY IN PROVIDING THE SERVICES INCLUDING PROCESSING DELAYS OR OTHER NON-PERFORMANCE IF SUCH FAILURE IS DUE TO ANY CAUSE OR CONDITION BEYOND SUCH PARTY'S REASONABLE CONTROL. SUCH CAUSES OR CONDITIONS SHALL INCLUDE, BUT SHALL NOT BE LIMITED TO, ACTS OF GOD OR OF THE PUBLIC ENEMY, ACTS OF THE GOVERNMENT IN EITHER ITS SOVEREIGN OR CONTRACTUAL CAPACITY, FIRES, FLOODS, EPIDEMICS, QUARANTINE RESTRICTIONS, STRIKES, RIOTS, WAR, SHORTAGES OF LABOR OR MATERIALS, FREIGHT EMBARGOES, UNUSUALLY SEVERE WEATHER, BREAKDOWNS, OPERATIONAL FAILURES, ELECTRICAL POWER FAILURES, TELECOMMUNICATIONS FAILURES, EQUIPMENT FAILURES, UNAVOIDABLE DELAYS, THE ERRORS OR FAILURES OF THIRD PARTY SYSTEMS, NON-PERFORMANCE OF VENDORS, SUPPLIERS, PROCESSORS OR TRANSMITTERS OF INFORMATION, OR OTHER SIMILAR CAUSES BEYOND SUCH PARTY'S CONTROL.
- 12.2 THE LIABILITY OF GLOBAL DIRECT AND MEMBER FOR ANY LOSS ARISING OUT OF OR RELATING IN ANY WAY TO THIS CARD SERVICES AGREEMENT, INCLUDING BUT NOT LIMITED TO DAMAGES ARISING OUT OF ANY MALFUNCTION OF THE EQUIPMENT OR THE FAILURE OF THE EQUIPMENT TO OPERATE, THE UNAVAILABILITY OR MALFUNCTION OF THE SERVICES, PERSONAL INJURY, OR PROPERTY DAMAGE, SHALL, IN THE

AGGREGATE, BE LIMITED TO ACTUAL, DIRECT, AND GENERAL MONEY DAMAGES IN AN AMOUNT NOT TO EXCEED ONE (1) MONTH'S AVERAGE CHARGE PAID BY MERCHANT HEREUNDER (EXCLUSIVE OF INTERCHANGE FEES, ASSESSMENTS, AND ANY OTHER FEES OR COSTS THAT ARE IMPOSED BY A THIRD PARTY IN CONNECTION WITH MERCHANT'S PAYMENT PROCESSING) FOR THE SERVICES DURING THE PREVIOUS TWELVE (12) MONTHS OR SUCH LESSER NUMBER OF MONTHS AS SHALL HAVE ELAPSED SUBSEQUENT TO THE EFFECTIVE DATE OF THIS CARD SERVICES AGREEMENT. THIS SHALL BE THE EXTENT OF GLOBAL DIRECT'S AND MEMBER'S LIABILITY ARISING OUT OF OR RELATING IN ANY WAY TO THIS CARD SERVICES AGREEMENT, INCLUDING ALLEGED ACTS OF NEGLIGENCE, BREACH OF CONTRACT, OR OTHERWISE AND REGARDLESS OF THE FORM IN WHICH ANY LEGAL OR EQUITABLE ACTION MAY BE BROUGHT AGAINST GLOBAL DIRECT OR MEMBER, WHETHER CONTRACT, TORT, OR OTHERWISE, AND THE FOREGOING SHALL CONSTITUTE MERCHANT'S EXCLUSIVE REMEDY.

- 12.3 UNDER NO CIRCUMSTANCES SHALL GLOBAL DIRECT OR MEMBER BE LIABLE FOR SPECIAL, CONSEQUENTIAL, PUNITIVE OR EXEMPLARY DAMAGES, INCLUDING LOST PROFITS, REVENUES AND BUSINESS OPPORTUNITIES, ARISING OUT OF OR RELATING IN ANY WAY TO THIS CARD SERVICES AGREEMENT, INCLUDING BUT NOT LIMITED TO, DAMAGES ARISING OUT OF PLACEMENT OF A MERCHANT'S NAME ON ANY TERMINATED MERCHANT LIST FOR ANY REASON, EVEN IF GLOBAL DIRECT OR MEMBER HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. Under no circumstances shall Global Direct, or Member be liable for any settlement amounts pertaining to Switched Transactions; Merchant's recourse therefore shall be to the applicable card issuer. Member shall not be responsible or liable to Merchant for any action taken by Member (or the results thereof) that is authorized by this Agreement.
- 12.4 **IT IS AGREED THAT IN NO EVENT WILL GLOBAL DIRECT OR MEMBER BE LIABLE FOR ANY CLAIM, LOSS, BILLING ERROR, DAMAGE, OR EXPENSE ARISING OUT OF OR RELATING IN ANY WAY TO THIS CARD SERVICES AGREEMENT WHICH IS NOT REPORTED IN WRITING TO GLOBAL DIRECT BY MERCHANT WITHIN SIXTY (60) DAYS OF SUCH FAILURE TO PERFORM OR, IN THE EVENT OF A BILLING ERROR, WITHIN NINETY (90) DAYS OF THE DATE OF THE INVOICE OR APPLICABLE STATEMENT. MERCHANT EXPRESSLY WAIVES ANY SUCH CLAIM THAT IS NOT BROUGHT WITHIN THE TIME PERIODS STATED HEREIN.**

13. TERM AND TERMINATION.

This Card Services Agreement shall remain in full force and effect for an initial term of three (3) years. This Card Services Agreement shall be automatically extended for successive one (1) year periods on the same terms and conditions expressed herein, or as may be amended, unless Merchant gives written notice of termination as to the entire Card Services Agreement or a portion thereof at least 60 days prior to the expiration of the initial term or any extension or renewals thereof, in which case this Card Services Agreement will terminate at the end of the then-current term. Notwithstanding anything to the contrary set forth herein, in the event Merchant terminates this Card Services Agreement in breach of this Section 13, the following amount(s) shall be immediately due and payable to Global Direct: the lesser of (a) the maximum amount permitted by state law, and (b) all monthly fees assessed to Merchant under this Card Services Agreement and due to Global Direct for the remainder of the then existing term of the Card Services Agreement, including all minimum monthly fee commitments. Merchant hereby authorizes Global Direct to accelerate the payment of such applicable amount(s) and to deduct such total amount(s) from Merchant's account referenced in Section 5, or to otherwise withhold the total amount(s) from amounts due to Merchant from Global Direct, immediately on or after the effective date of termination. If the Merchant's account does not contain sufficient funds for the debit or the amount cannot be withheld by Global Direct from amounts due to Merchant, Merchant shall pay Global Direct the amount due within ten (10) days of the date of Global Direct's invoice for same. The payment as described here is not a penalty, but rather is hereby agreed by the parties to be a reasonable amount of liquidated damages to compensate Global Direct for its termination expenses and all other damages under the circumstances in which such amounts would be payable. Such amount(s) shall not be in lieu of but in addition to any payment obligations for Services already provided hereunder (or that Global Direct may continue to provide), which shall be an additional cost, and any and all other damages to which Global Direct may be entitled hereunder. Notwithstanding the foregoing, if Merchant provides Global with written notice within forty-five (45) days of Merchant's execution of this Card Services Agreement that it wishes to terminate this Card Services Agreement immediately, Merchant shall not be responsible for the payment of the above-referenced amount(s), but shall be responsible for compliance with all other terms and conditions set forth in this Card Service Agreement, including but not limited to payment for all fees incurred prior to the termination of this Card Services Agreement.

Notwithstanding the foregoing, Global Direct may terminate this Card Services Agreement or any portion thereof upon written notice to Merchant. Furthermore, Global Direct may terminate this Card Services Agreement at any time without notice upon Merchant's default in performing under any provision of this Card Services Agreement, upon an unauthorized conversion of all or any part of Merchant's activity to mail order, telephone order, Internet order, or to any activity where the card is not physically present and swiped through the Merchant's terminal or other card reader, upon any failure to follow the Card Acceptance Guide or any operating regulation or rule of a card association or network organization, upon any misrepresentation by Merchant, upon commencement of bankruptcy or insolvency proceedings by or against the Merchant, upon a material change in the Merchant's average ticket or volume as stated in the Merchant Application, or in the event Global Direct reasonably deems itself insecure in continuing this Card Services Agreement.

In the event that Global Direct and Member breach the terms and conditions hereof, the Merchant may, at its option, give written notice to Global Direct and Member of its intention to terminate this Card Services Agreement unless such breach is remedied within thirty (30) days of such notice. Failure to remedy such a breach shall make this Card Services Agreement terminable, at the option of the Merchant, at the end of such thirty (30) day period unless notification is withdrawn.

Any Merchant deposit of sales or credit slips that is accepted by Global Direct and Member or by a designated depository after the effective date of termination will be returned to Merchant and will not be credited (or debited) to Merchant's account(s). If the deposit has already been posted to Merchant's account(s), said posting will be reversed and the deposit returned to Merchant. Termination of this Card Services Agreement shall not affect Merchant's obligations which have accrued prior to termination or which relate to any indebtedness purchased hereunder prior to termination, including but not limited to chargebacks even if such chargebacks come in after termination. In the event of termination, all equipment leased from, and software provided by, Global Direct including but not limited to imprinters, terminals, and printers; all supplies; Card Acceptance Guides; and operating instructions must be returned immediately to Global Direct at Merchant's expense.

14. RETURNED ITEMS/CHARGEBACKS.

If a cardholder disputes any transaction, if a transaction is charged back for any reason by the card issuing institution, or if Global Direct or Member has any reason to believe an indebtedness previously purchased is questionable, not genuine, or is otherwise unacceptable, the amount of such indebtedness may be charged back and deducted from any payment due to Merchant or may be charged against any of Merchant's accounts or the Reserve Account (as defined below). Merchant acknowledges and agrees that it is bound by the rules of the card

associations and network organizations with respect to any chargeback. Merchant further acknowledges that it is solely responsible for providing Global Direct and Member with any available information to re-present a chargeback and that, regardless of any information it provides or does not provide Global Direct and Member in connection with a chargeback, or any other reason, Merchant shall be solely responsible for the liability related to such chargeback. A list of some common reasons for chargebacks is contained in the Card Acceptance Guide provided, however, that such list is not exclusive and does not limit the generality of the foregoing. If any such amount is uncollectible through withholding from any payments due hereunder or through charging Merchant's accounts or the Reserve Account, Merchant shall, upon demand by Global Direct, pay Global Direct the full amount of the chargeback. Merchant understands that obtaining an authorization for any sale shall not constitute a guarantee of payment, and such sales slips can be returned or charged back to Merchant like any other item hereunder.

15. RESERVE ACCOUNT.

At any time, Global Direct and Member may, at their option, establish a reserve account to secure the performance of Merchant's obligations under this Card Services Agreement to such party ("Reserve Account"). The Reserve Account may be funded, at Global Direct's sole discretion, through any or all of the following: (a) Direct payment by Merchant -- At the request of Global Direct or Member, Merchant will deposit funds in the Reserve Account; (b) The proceeds of indebtedness presented for purchase; or (c) The transfer by Global Direct and Member into the Reserve Account of funds withdrawn from any of the accounts referred to in Section 5 or any other accounts, including certificates of deposit, maintained by Merchant or Merchant's guarantor, if any, with any designated depository or other financial institution. Merchant and Merchant's guarantor hereby grants Member a security interest in all accounts referenced in Section 5 or any other accounts, including certificates of deposits, maintained by Merchant or Merchant's guarantor, if any, with any designated depository or other financial institution and authorizes Global Direct (to the extent authorized by Member) or Member to make such withdrawals at such times and in such amounts as it may deem necessary hereunder. Merchant and Merchant's guarantor hereby instruct said financial institutions to honor any requests made by Global Direct and Member under the terms of this provision. Merchant and Merchant's guarantor will hold harmless the financial institutions and indemnify them for any claims or losses they may suffer as a result of honoring withdrawal requests from Global Direct and Member.

Merchant hereby agrees that Global Direct and Member may deduct from this Reserve Account any amount owed to such party in accordance with this Card Services Agreement. Any funds in the Reserve Account may be held until the later of (a) the expiration of any potentially applicable chargeback rights in respect of purchased indebtedness under the rules and regulations of the card associations or network organizations and (b) the period necessary to secure the performance of Merchant's obligations under this Card Services Agreement, which holding period may extend beyond termination of this Card Services Agreement. Merchant will not receive any interest on funds being held in a Reserve Account and Merchant has no right to access the funds being held in the Reserve Account or otherwise transfer, pledge or use these funds for its own purposes. Without limiting the generality of the foregoing, Merchant shall, upon termination of this Card Services Agreement, maintain the sum of at least five percent (5%) of gross sales for the 90 day period prior to termination to be held in a Reserve Account in accordance with the terms of this Card Services Agreement. Global may, at its discretion upon termination of this Card Services Agreement, require that the Merchant maintain more than five percent (5%) of gross sales for the 90 day period prior to termination in a Reserve Account.

16. DEFAULT/SECURITY INTEREST.

Upon failure by Merchant to meet any of its obligations under this Card Services Agreement (including funding the Reserve Account), any of the accounts referred to in Section 5 or any other accounts belonging to Merchant, Merchant's affiliated entities, or Merchant's guarantor held by any designated depository (or by any other financial institution) may be debited without notice to Merchant, and Merchant (on behalf of itself and its affiliated entities) hereby grants to Member, Global Direct a lien and security interest in all of Merchant's right, title and interest in or to any of the following assets or properties: (a) all of the accounts referenced in the preceding sentence, (b) the Reserve Account, (c) any rights to receive credits or payments under this Card Services Agreement and (d) all deposits and other property of Merchant that Member or its affiliates possess or maintain (including all proceeds of the foregoing). Merchant shall execute, acknowledge or deliver any documents or take any actions Member, Global Direct may from time to time request to better assure, preserve, protect, perfect, maintain or enforce this security interest. To the extent permitted by law, Merchant irrevocably authorizes Member, Global Direct to file any financing statements (at Merchant's expense) in any relevant jurisdiction or any other documents or instruments related to this security interest. Merchant represents and warrants that (a) Merchant has good and valid rights and title to the property described herein, (b) Merchant has full power and authority to grant to Member the security interest pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this Card Services Agreement, without the consent or approval of any other person or entity, (c) no other person or entity has a security interest or lien in any of the property described herein and (d) this security interest is a first lien security interest and secures Merchant's obligations to Member under this Card Services Agreement. Member shall have all rights of a secured party and Merchant must obtain the prior written consent of Member before granting any subsequent security interest or lien in the property described herein. Merchant agrees that it is Merchant's intent that these accounts and secured property shall to the extent allowed by applicable law not be subject to any preference, claim, or stay by reason of any bankruptcy or insolvency law. Merchant agrees to act consistently with the understanding that said accounts and secured property under this Card Services Agreement are free of all such preferences, claims or stays by reason of and as allowed by any such law. The scope of the security interest, and Merchant's (on behalf of itself and its affiliated entities) and Merchant's guarantor's instructions to its financial institutions to accept withdrawal requests from Global Direct, Member, and Merchant's agreement to hold such institutions harmless and to indemnify them are described above in Section 15.

Merchant also agrees that, in the event of a default by Merchant, Member has a right of setoff and may apply any of Merchant's balances or any other monies due Merchant from Member towards the payment of amounts due from Merchant under the terms of this Card Services Agreement. The rights stated herein are in addition to any other rights Global Direct, Member may have under applicable law.

17. DISPUTE RESOLUTION – ARBITRATION AND CLASS ACTION WAIVER

NOTE: PLEASE READ THIS SECTION CAREFULLY AS IT AFFECTS YOUR RIGHTS AND THE RESOLUTION OF DISPUTES

- 17.1 **MANDATORY ARBITRATION: ANY DISPUTE OR CLAIM ARISING OUT OF, RELATING TO, OR IN CONNECTION WITH THIS CARD SERVICES AGREEMENT OR THE RELATIONSHIPS WHICH RESULT FROM THIS CARD SERVICES AGREEMENT SHALL BE RESOLVED BY BINDING ARBITRATION, RATHER THAN IN COURT; HOWEVER, YOU MAY ASSERT CLAIMS IN SMALL CLAIMS COURT IF (1) THE CLAIMS QUALIFY FOR SMALL CLAIMS COURT; (2) THE MATTER REMAINS IN SMALL CLAIMS COURT AT ALL TIMES; AND (3) THE MATTER PROCEEDS ONLY ON AN INDIVIDUAL (NOT A CLASS OR REPRESENTATIVE BASIS). ARBITRATION DOES NOT PROCEED BEFORE A JURY AND MAY INVOLVE MORE LIMITED DISCOVERY THAN A COURT PROCEEDING. ANY ARBITRATION UNDER THIS CARD SERVICES AGREEMENT WILL ONLY BE ON AN INDIVIDUAL BASIS. CLASS ARBITRATIONS, CLASS ACTIONS, PRIVATE ATTORNEY GENERAL ACTIONS, AND CONSOLIDATION WITH OTHER ARBITRATIONS ARE NOT PERMITTED.** The arbitrator's award or decision will not affect issues or claims involved in any proceeding between Global Direct or Member and any person or entity who is not a party to the arbitration. The arbitrator may award monetary, declaratory or injunctive relief only in favor of the individual party seeking relief and only to the extent necessary to provide relief warranted by that party's individual claim. The arbitrator's award, if any, will not apply to any person or entity that is not a party to the arbitration. However, nothing in this Section or this Card Services Agreement shall preclude any party from bringing issues to the attention of federal, state or local agencies. Such agencies can, if the law allows, seek relief on your behalf. Further, notwithstanding the foregoing, nothing in this Section or this Agreement prohibits a party from applying to a court of competent jurisdiction for a temporary restraining order, preliminary injunction, or other equitable relief.

The Federal Arbitration Act (9 U.S.C. § 1 et seq.) governs the interpretation and enforcement of the arbitration provisions of this section. Arbitration will be administered by JAMS (www.jamsadr.com). For claims greater than \$250,000, the JAMS Comprehensive Arbitration Rules and Procedures in effect at the time the arbitration is commenced will apply (if no such rules are in effect, JAMS default arbitration rules shall apply). For claims equal to or less than \$250,000, the JAMS Streamlined Arbitration Rules and Procedures in effect at the time the arbitration is commenced will apply (if no such rules are in effect, JAMS default arbitration rules shall apply). Unless the arbitrator(s) determine that justice or fairness require otherwise: (i) any arbitration will proceed in Atlanta, Georgia (although, for the convenience of the Merchant or guarantor (as applicable), any party or its counsel may participate telephonically); and (ii) the arbitrator(s) will oversee limited discovery, taking into account the amount in controversy and the parties' desire to keep proceedings cost-effective and efficient. Any decision rendered in any arbitration proceeding shall be final and binding on each of the parties to the arbitration and judgment may be entered thereon in any court of competent jurisdiction. The parties will maintain the confidential nature of the arbitration proceeding except as may be necessary to enforce any award or to comply with applicable law.

If the total damage claims in an arbitration are \$10,000 or less, not including the Merchant's attorney fees ("Small Arbitration Claim"), the arbitrator may, if the Merchant, prevails, award the Merchant reasonable attorney fees, expert fees and costs (separate from Arbitration Costs as defined below), but may not grant Global Direct or Member its attorney fees, expert fees or costs (separate from Arbitration Costs) unless the arbitrator determines that the Merchant's claim was frivolous or brought in bad faith. In a Small Arbitration Claim case, Global Direct will pay all arbitration filing, administrative and arbitrator costs (together, "Arbitration Costs"). The Merchant must submit any request for payment of Arbitration Costs to JAMS at the same time the Merchant submits its Demand for Arbitration. However, if the Merchant wants Global Direct to advance the Arbitration Costs for a Small Arbitration Claim before filing, Global Direct will do so at the Merchant's written request which must be sent to Global Direct at the address set forth in the Notices section (Section 22) herein below.

If the Merchant's total damage claims in an arbitration exceed \$10,000, not including the Merchant's attorney fees ("Large Arbitration Claim"), the arbitrator may award the prevailing party its reasonable attorneys' fees and costs, or it may apportion attorneys' fees and costs between the Merchant and Global Direct (such fees and costs being separate from Arbitration Costs). In a Large Arbitration Claim case, if the Merchant is able to demonstrate that the Arbitration Costs will be prohibitive as compared to the costs of litigation, Global Direct will pay as much of the Arbitration Costs as the arbitrator deems necessary to prevent the arbitration from being cost-prohibitive.

Merchant hereby agrees that claims applicable to American Express may be resolved through arbitration as further described in the American Express Merchant Requirements Guide (the "American Express Guide").

- 17.2 Choice of Forum: A court, not the arbitrator, will decide any questions regarding the validity, scope and/or enforceability of Section 17.1. Any litigated action (as opposed to an arbitration) regarding, relating to or involving the validity, scope and/or enforceability of Section 17.1, or otherwise, shall be brought in either the courts of the State of Georgia sitting in Fulton County or the United States District Court for the Northern District of Georgia, and Merchant and guarantor (if applicable) expressly agree to the exclusive jurisdiction of such courts. Merchant and guarantor (if applicable) hereby agree and consent to the personal jurisdiction and venue of such courts, and expressly waive any objection that Merchant or guarantor might otherwise have to personal jurisdiction or venue in such courts.
- 17.3 Class Action Waiver: MERCHANT AND GUARANTOR (IF APPLICABLE) ACKNOWLEDGE AND AGREE THAT ALL DISPUTES ARISING OUT OF OR RELATED TO THIS CARD SERVICES AGREEMENT SHALL BE RESOLVED ON AN INDIVIDUAL BASIS WITHOUT RESORT TO ANY FORM OF CLASS ACTION AND SHALL NOT BE CONSOLIDATED WITH THE CLAIMS OF ANY OTHER PARTIES. MERCHANT AND GUARANTOR (IF APPLICABLE) FURTHER AGREE TO WAIVE, AND HEREBY WAIVE, THE RIGHT TO PARTICIPATE IN A CLASS ACTION OR TO LITIGATE OR ARBITRATE ON A CLASS-WIDE BASIS.

18. AMENDMENTS.

This Card Services Agreement may be amended only in writing signed by Global Direct, Member, and Merchant, except that (a) the Card Acceptance Guide and any and all fees, charges, and/or discounts (including without limitation surcharges) may be changed immediately, or (b) Global Direct may mail Merchant either (i) a notice describing amendments to this Card Services Agreement or new services to be provided or fees to be charged to Merchant or (ii) an entirely new agreement, which notice, amendments or new agreement will be binding upon Merchant if it deposits sales or credit slips after the effective date of such amendment or new agreement set forth in Global Direct's notice.

19. WAIVER.

No provision of this Card Services Agreement shall be deemed waived by any party unless such waiver is in writing and signed by the party against whom enforcement is sought. No failure to exercise, and no delay in exercising on the part of any party hereto, any right, power or privilege under this Card Services Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or

privilege under this Card Services Agreement preclude any other or further exercise thereof or the exercise of any other right, power, or privilege.

20. EXCHANGE OF INFORMATION.

Merchant authorizes Global Direct to order a credit report on Merchant or any owner, officer, shareholder, partner, proprietor, managing agent or guarantor of Merchant. Merchant hereby authorizes Member or any depository institution to release any financial information concerning Merchant or its accounts to Global Direct. Subsequent credit reports may be ordered in connection with updating, renewing or continuing this Card Services Agreement. Upon the written request of any individual who is the subject of a consumer credit report, Global Direct will provide the name and address of the consumer credit reporting agency furnishing such report, if any. Global Direct may exchange information about Merchant, Merchant's owners, principals, partners, proprietors, officers, shareholders, managing agents and guarantors with Member, other financial institutions and credit card associations, network organizations and any other party. Merchant hereby authorizes Global Direct to disclose information concerning Merchant's activity to any card association, network organizations, or any of their member financial institutions, or any other party without any liability whatsoever to Merchant.

21. GENERAL.

If any provision of this Card Services Agreement or portion thereof is held to be unenforceable, such a determination will not affect the remainder of this Card Services Agreement. Paragraph headings are included for convenience only and are not to be used in interpreting this Card Services Agreement.

22. NOTICES.

All notices required by this Card Services Agreement shall be in writing and shall be sent by facsimile, by overnight carrier, or by regular or certified mail. All notices sent to Global Direct or Member shall be effective upon actual receipt by the Corporate Secretary of Global Payments Direct, Inc.- 3550 Lenox Road NE, Suite 3000, Atlanta GA 30326. Any notices sent to Merchant shall be effective upon the earlier of actual receipt or upon sending such notice to the address provided by Merchant in the Merchant Application or to any other e-mail or physical address to which notices, statements and/or other communications are sent to the Merchant hereunder. The parties hereto may change the name and address of the person to whom notices or other documents required under this Card Services Agreement must be sent at any time by giving written notice to the other party.

23. MERGER.

This Card Services Agreement, including these Card Services Terms & Conditions and the Merchant Application, constitutes the entire agreement between Merchant, Global Direct, and Member and supersedes all prior memoranda or agreements relating thereto, whether oral or in writing.

24. EFFECTIVE DATE.

This Card Services Agreement shall become effective only upon acceptance by Global Direct and Member, or upon delivery of indebtedness at such locations as designated by Global Direct for purchase, whichever event shall first occur.

25. DESIGNATION OF DEPOSITORY.

The financial institution set forth in the Merchant Application is designated by Merchant as a depository institution ("Depository") for its credit card indebtedness. Such financial institution must be a member of an Automated Clearing House Association. Merchant authorizes payment for indebtedness purchased hereunder to be made by paying Depository therefore with instructions to credit Merchant's accounts. Depository, Member, and/or Global Direct may charge any of Merchant's accounts at Depository for any amount due under this Card Services

Agreement. Global Direct must approve in writing any proposed changes to the account numbers or to the Depository. Merchant hereby authorizes Depository to release any and all account information to Global Direct as Global Direct may request without any further authorization, approval or notice from or to Merchant.

26. FINANCIAL ACCOMMODATION.

The acquisition and processing of sales slips hereunder is a financial accommodation and, as such, in the event Merchant becomes a debtor in bankruptcy, this Card Services Agreement cannot be assumed or enforced, and Global Direct and Member shall be excused from performance hereunder.

27. DEBIT / ATM PROCESSING SERVICES: ADDITIONAL TERMS AND CONDITIONS.

Debit Sponsor shall act as Merchant's sponsor with respect to the participation of point-of-sale terminals owned, controlled, and/or operated by Merchant (the "Covered Terminals") in each of the following debit card networks ("Networks"): Accel, AFFN, Alaska Option, CU24, Interlink, Maestro, NYCE, Pulse, Shazam, Star, and Tyme, which Networks may be changed from time-to-time by Debit Sponsor or Global Direct without notice. Merchant may also have access to other debit networks that do not require a sponsor. Global Direct will provide Merchant with the ability to access the Networks at the Covered Terminals for the purpose of authorizing debit card transactions from cards issued by the members of the respective Networks. Global Direct will provide connection to such Networks, terminal applications, settlement, and reporting activities. Merchant will comply with all federal, state, and local laws, rules, regulations, and ordinances ("Applicable Laws") and with all by-laws, regulations, rules, and operating guidelines of the Networks ("Network Rules"). Merchant will execute and deliver any application, participation, or membership agreement or other document necessary to enable Debit Sponsor to act as sponsor for Merchant in each Network. Merchant agrees to utilize the debit card Services in accordance with the Card Services Agreement, its exhibits or attachments, and Global Direct's instructions and specifications (including but not limited to the Card Acceptance Guide which is incorporated into and made a part of this Card Services Agreement), and to provide Global Direct with the necessary data in the proper format to enable Global Direct to properly furnish the Services. Copies of the relevant agreements or operating regulations shall be made available to Merchant upon request.

Merchant shall not in any way indicate that Debit Sponsor endorses Merchant's activities, products, or services. Debit Sponsor and Merchant are and shall remain independent contractors of one another, and neither they, nor their respective individual employees, shall have or hold themselves out as having any power to bind the other to any third party. Nothing contained in this Section shall be construed to create or constitute a partnership, joint venture, employer-employee, or agency relationship between Debit Sponsor and Merchant.

In the event that Debit Sponsor's sponsorship of Merchant in any Network is terminated prior to the termination of the Card Services Agreement, Global Direct may assign Debit Sponsor's rights and obligations hereunder to a third party. All provisions in this Section necessary to enforce the rights and obligations of the parties contained in this Section shall survive the termination of Debit Sponsor's debit sponsorship of Merchant under the Card Services Agreement. Debit Sponsor may assign this Agreement to any parent, subsidiary, affiliate, or successor-in-interest.

28. MERCHANT ACCEPTANCE OF EBT TRANSACTIONS: ADDITIONAL TERMS AND CONDITIONS.

Merchant agrees to issue Benefits to Recipients in accordance with the procedures specified herein, and in all documentation and user guides provided to Merchant by Global Direct, as amended from time-to-time (including but not limited to the Card Acceptance Guide which is incorporated into and made a part of this Card Services Agreement); and pursuant to the Quest Operating Rules (the "Rules"), as amended from time-to-time, issued by the National Automated Clearing House Association as approved by the Financial Management Service of the U.S. Treasury Department. Unless otherwise defined herein, all capitalized terms shall have the meanings ascribed them in the Rules. Merchant will provide each recipient a receipt of each Benefit issuance. Merchant will be solely responsible for Merchant's issuance of Benefits other than in accordance with authorizations. Merchant agrees to comply with all the requirements, laws, rules and regulations pertaining to the delivery of services to Benefit Recipients and Benefit Recipient confidentiality. If Merchant issues FS Benefits under this Card Services Agreement, Merchant represents and warrants to Global Direct that Merchant is an FNS-authorized "Merchant" (as such term is defined in the Rules) and is not currently suspended or disqualified by FNS. Merchant agrees to secure and maintain at its own expense all necessary licenses, permits, franchises, or other authorities required to lawfully effect the issuance and distribution of Benefits under this Card Services Agreement, including without limitation, any applicable franchise tax certificate and non-governmental contractor's certificate, and covenants

that Merchant will not issue Benefits at any time during which Merchant is not in compliance with the requirements of any applicable law. Merchant agrees to hold Global Direct harmless from any costs of compliance or failure to comply with any such obligation by Merchant. Global Direct may terminate or modify the provision of Services to Merchant if any of Global Direct's agreements with government EBT agencies are terminated for any reason or if any party threatens to terminate services to Global Direct due to some action or inaction on the part of Merchant. If any of these Card Services Terms & Conditions are found to conflict with Federal or State law, regulation or policy of the Rules, these Card Services Terms & Conditions are subject to reasonable amendment by Global Direct, the State or its EBT Service Provider to address such conflict upon ninety (90) days written notice to Merchant, provided that Merchant may, upon written notice, terminate the Card Services Agreement upon receipt of notice of such amendment. Nothing contained herein shall preclude the State from commencing appropriate administrative or legal action against Merchant or for making any referral for such action to any appropriate Federal, State, or local agency. Any references to "State" herein shall mean the State in which Merchant issues Benefits pursuant hereto. If Merchant issues Benefits in more than one State pursuant hereto, then the reference shall mean each such State severally, not jointly.

29. DECLINE MINIMIZER SERVICES

In the event that Merchant elects to use Global Direct's Decline Minimizer Service (as defined herein below), the following terms apply. Merchant represents and warrants that its business is of such a nature that it periodically needs to receive updated cardholder account information and that Merchant does not belong to any high-risk categories as determined by any Card Schemes. In consideration of Merchant's payment of any fees and charges set forth herein, Global Direct agrees to provide to Merchant certain Card decline minimizer services facilitated by applicable card associations, which services are designed to assist merchants in recurring payment industries with maintenance of current cardholder account data (such services, the "Decline Minimizer Services"). The Decline Minimizer Services are subject to availability as determined by the card associations. Merchant acknowledges that a card association may terminate or suspend Global Direct's ability or right to provide the Decline Minimizer Services, and Global Direct may terminate its obligations with respect to the Decline Minimizer Service at any time upon notice to Merchant. The Decline Minimizer Services may be subject to additional terms, conditions, and/or fees, notice of which shall be provided to Merchant accordance with this Agreement.

30. DISCOVER PROGRAM MARKS.

Merchant is hereby granted a limited non-exclusive, non-transferable license to use Discover brands, emblems, trademarks, and/or logos that identify Discover cards ("Discover Program Marks"). Merchant is prohibited from using the Discover Program Marks other than as expressly authorized in writing by Global Direct. Merchant shall not use the Discover Program Marks other than to display decals, signage, advertising and other forms depicting the Discover Program Marks that are provided to Merchant by Global Direct pursuant to this Card Services Agreement or otherwise approved in advance in writing by Global Direct. Merchant may use the Discover Program Marks only to promote the services covered by the Discover Program Marks by using them on decals, indoor and outdoor signs, advertising materials and marketing materials; provided that all such uses by Merchant must be approved in advance by Global Direct in writing. Merchant shall not use the Discover Program Marks in such a way that customers could believe that the products or services offered by Merchant are sponsored or guaranteed by the owners of the Discover Program Marks. Merchant recognizes that it has no ownership rights in the Discover Program Marks and shall not assign to any third party any of the rights to use the Discover Program Marks.

31. PAYPAL MARKS.

PayPal Marks means the brands, emblems, trademarks, and/or logos that identify PayPal Acceptance. Merchant shall not use the PayPal Marks other than to display decals, signage, advertising, and other forms depicting the PayPal Marks that are provided to Merchant by Global Direct pursuant to the Merchant Program or otherwise approved in advance in writing by Acquirer. Merchant may use the PayPal Marks only to promote the services covered by the PayPal Marks by using them on decals, indoor and outdoor signs, advertising materials and marketing materials; provided that all such uses by Merchant must be approved in advance by Global Direct in writing. Merchant shall not use the PayPal Marks in such a way that customers could believe that the products or services offered by Merchant are sponsored or guaranteed by the owners of the PayPal Marks. Merchant recognizes that it has no ownership rights in the PayPal Marks. Merchant shall not assign to any third party any of the rights to use the PayPal Marks. Merchant is prohibited from using the PayPal Marks, not permitted above, unless expressly authorized in writing by PayPal.

32. AMERICAN EXPRESS CARD ACCEPTANCE.

Merchant hereby acknowledges and agrees that for purposes of acceptance of American Express, the American Express Guide is hereby incorporated by reference into this Card Services Agreement. In addition, Merchant agrees to comply with the terms of all other security and operational guides published by American Express from time to time, including the American Express Data Security Requirements. Merchant hereby authorizes Global Direct to submit American Express transactions to, and receive settlement from, American Express on behalf of Merchant. Merchant must accept the American Express card as payment for goods and services (other than those goods and services prohibited under the American Express Guide sold, or (if applicable) for charitable contributions made, at all of its establishments, except as expressly permitted by state statute. Merchant is jointly and severally liable for the obligations of Merchant's establishments under the Card Services Agreement. For the avoidance of doubt, "cardholder" as used in this Card Services Agreement shall include Card Members as defined in the American Express Guide.

Merchant hereby acknowledges and agrees that (i) Global Direct may disclose American Express Transaction Data (which for purposes of this Section 31 shall have the same definition as "Transaction Data" in the American Express Guide), Merchant Data (as defined below), and other information about Merchant to American Express, (ii) American Express may use such information to perform its responsibilities in connection with the American Express Program, promote the American Express Network, perform analytics and create reports, and for any other lawful business purpose, including marketing purposes, and (iii) American Express may use the information obtained in this application at the time of setup to screen and/or monitor Merchant in connection with American Express Card marketing and administrative purposes. If Merchant has provided a wireless phone number in connection with this Card Services Agreement, Merchant hereby agrees that it may be contacted at that number and the communications sent may include autodialed text messages or automated prerecorded calls. If Merchant has provided a fax number, Merchant hereby agrees that it may be sent fax communications. To opt out of American Express-related marketing communications, Merchant may contact Global Direct customer service as described in this Card Services Agreement. For purposes of this Section 31, "Merchant Data" means names, postal and email addresses, tax ID numbers, names and social security numbers of the authorized signer of Merchant and similar identifying information about Merchant. For clarification, Merchant Data does not include American Express Transaction Data.

Merchant hereby agrees that, in the event that Merchant becomes a High Charge Volume Merchant (as defined below), Merchant will be converted from the American Express Program to a direct American Express Card acceptance relationship with American Express, and upon such conversion, (i) Merchant will be bound by American Express' then-current card acceptance agreement, and (ii) American Express will set pricing and other fees payable by Merchant for American Express Card acceptance. "High Charge Volume Merchant" for purposes of this Section 31 means an American Express Program Merchant with either

(i) greater than \$1,000,000 in American Express charge volume in a rolling twelve (12) month period or (ii) greater than \$100,000 in American Express charge volume in any three (3) consecutive months. For clarification, if Merchant has multiple establishments, the American Express charge volume from all establishments shall be summed together when determining whether Merchant has exceeded the thresholds above.

Merchant shall not assign to any third party any American Express-related payments due to it under this Card Services Agreement, and all indebtedness arising from American Express Charges (as defined below) will be for bona fide sales of goods and services (or both) at its establishments (as defined below) and free of liens, claims, and encumbrances other than ordinary sales taxes; provided, however, that Merchant may sell and assign future American Express transaction receivables to Global Direct, its affiliated entities and/or any other cash advance funding source that partners with Global Direct or its affiliated entities, without consent of American Express.

In connection with Merchant's acceptance of American Express, Merchant agrees to comply with and be bound by, the rules and regulations imposed by the Payment Card Industry (PCI) Security Standards Council (including without limitation the PCI Data Security Standard). Merchant hereby agrees to report all actual or suspected Data Incidents (as such term is defined in the American Express Data Security Requirements) immediately to Global Direct and American Express immediately upon discovery thereof.

Merchant hereby agrees that American Express shall have third party beneficiary rights, but not obligations, to enforce the Card Services Agreement against Merchant to the extent applicable to American Express processing. Merchant's termination of American Express card

acceptance shall have no direct or indirect effect on Merchant's rights to accept other card brands. To terminate American Express acceptance, Merchant may contact Global Direct customer service as described in this Card Services Agreement.

Without limiting any other rights provided herein, Global Direct shall have the right to immediately terminate Merchant's acceptance of American Express cards upon request of American Express. Merchant may not bill or collect from any American Express Card Member for any purchase or payment on the American Express card unless a chargeback has been exercised, Merchant has fully paid for such charge, and it otherwise has the right to do so. Merchant shall use the American Express brand and marks in accordance with the requirements set forth in the American Express Guide.

33. ELECTRONIC SIGNATURES.

Under the Electronic Signatures in Global and National Commerce Act (E-Sign), this Card Services Agreement and all electronically executed documents related hereto are legally binding in the same manner as are hard copy documents executed by hand signature when (1) your electronic signature is associated with the Card Services Agreement and related documents, (2) you consent and intend to be bound by the Card Services Agreement and related documents, and (3) the Card Services Agreement is delivered in an electronic record capable of retention by the recipient at the time of receipt (i.e., print or otherwise store the electronic record). This Card Services Agreement and all related electronic documents shall be governed by the provisions of E-Sign.

By pressing Submit, you agree (i) that the Card Services Agreement and related documents shall be effective by electronic means, (ii) to be bound by the terms and conditions of this Card Services Agreement and related documents, (iii) that you have the ability to print or otherwise store the Card Services Agreement and related documents, and (iv) to authorize us to conduct an investigation of your credit history with various credit reporting and credit bureau agencies for the sole purpose of determining the approval of the applicant for merchant status or equipment leasing. This information is kept strictly confidential and will not be released.

34. SURCHARGES/OTHER FEES.

Merchant pricing appears in the Card Services Fee Schedule of the Merchant Application. T&E merchants (airline, car rental, cruise line, fast food, lodging, restaurant, travel agent, transportation) may have separate rates quoted for consumer and commercial (business) transactions. Transactions that do not clear as priced are subject to surcharges (as outlined in Merchant Application) that are billed back to you on your monthly statement. The most predominant market sectors and transactions types for surcharges appear below, however, such sectors and transaction types are not comprehensive and are subject to change. Most surcharges can be avoided by using a product that supports authorization and market data requirements established by the card associations and that are subject to change from time to time. Some surcharges occur on specific types of cards (including without limitation Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, MasterCard Rewards Card, MasterCard World Card, MasterCard World Elite Card, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card, and "foreign" cards issued outside the United States). Unless your Card Services Fee Schedule specifically addresses commercial cards (i.e., Business Cards, Corporate Cards, Fleet Cards, GSA Cards, Purchase Cards), you will be billed back for the higher cost of acceptance of commercial cards, unless you are primarily a business-to-business supplier with corresponding pricing based on acceptance of commercial cards. The card associations require that information from the original authorization, including a lifecycle identifier, be retained and returned with subsequent authorizations and/or the settled transaction data. The card associations validate this information as part of the clearing and settlement process. If authorization data is not retained and returned at settlement, then the transaction will not clear as priced and will incur a surcharge. For more information concerning surcharging and to view market data, you may wish to check the Global Direct website (www.globalpaymentsinc.com) for best practices information and to license Global Access @dvantage (GA@) or Business View for transaction detail review.

The items listed in this Section 33 are not and are not intended to be a comprehensive list of all instances in which surcharges may apply. Surcharges may apply in additional situations. All surcharges may include additional fees assessed by the applicable card association and Member or Global Direct.

In addition, Merchant may be assessed additional fees which will be in addition to the fees stated on the Merchant Application, including the following:

Merchant will also be assessed (a) Cross-Border fees and a U.S. Acquirer Support fee for international MasterCard and Maestro transactions, (b) an International Service Assessment fee and International Acquirer fee for international Visa transactions, and (c) an International Processing fee and International Service fee for international Discover transactions. These fees, which are applicable to transactions between Merchant and a non-U.S. MasterCard, Maestro, Visa, American Express, or Discover cardholder will be displayed as a separate item on Merchant's monthly statement and may include fees assessed by both the applicable card association and Member or Global Direct.

Merchant will also be assessed per transaction access or participation fees and assessment rates for Visa, MasterCard, American Express, Discover and PayPal transactions, which will be displayed as a separate item on Merchant's monthly statement and may include fees by both the applicable card association and Member or Global Direct.

Merchant will also be assessed a Discover Network Authorization Fee.

Merchant may also be assessed a PCI DSS Compliance fee, which will appear as a separate item on Merchant's monthly statement. This fee is assessed by Member and Global Direct in connection with Member and Global Direct's efforts to comply with the PCI Data Security Standard and does not ensure Merchant's compliance with the PCI Data Security Standard or any law, rule or regulation related to cardholder data security. The payment of such fee shall not relieve Merchant of its responsibility to comply with all rules and regulations related to cardholder data security, including without limitation the PCI Data Security Standard. Merchant may also be assessed a PCI DSS Non-Compliance fee until they validate compliance or confirm they are using a PA DSS Validated payment application.

Merchant will also be assessed the following fees on or related to Visa transactions: the Visa Misuse of Authorization System fee, which will be assessed on authorizations that are approved but never settled with the Merchant's daily batch, the Visa Zero Floor Limit Fee, which will be assessed on settled transactions that were not authorized, the Visa Zero Dollar Verification fee, which will be assessed on transactions where Merchant requested an address verification response without an authorization, the Visa Transaction Integrity fee, which will be assessed on Visa signature debit and prepaid transactions that fail to meet processing and transaction standards defined by Visa, and a monthly fee based on the number of card present Merchant locations by Merchant taxpayer identification number and/or all Visa volume processed by a Merchant's taxpayer identification number. Merchant will also be assessed a MasterCard CVC2 Transaction fee and the MasterCard Misuse of Authorization System fee, which will be assessed on authorizations that are approved but never settled with the Merchant's daily batch or not properly reversed within 120 days, and an acceptance and licensing fee that will be applied to the Merchant's total U.S. MasterCard sales volume. These fees will be displayed as separate items on Merchant's monthly statement, provided that the acceptance and licensing fee may be included with Merchant's MasterCard assessment fees, and may include fees assessed by both the applicable card association and Member or Global Direct.

SURCHARGES FOR PREDOMINANT MARKET SECTORS

Retail/Restaurant Electronic Merchant

If you are a Retail Merchant or a Restaurant Merchant with retail-only pricing (no Business Card Rate) and utilize a certified terminal product or electronic system or the payment application provided by Global Direct or its partner, which is designed for authorization and settlement through Global Direct, each consumer card transaction you submit which meets all of the following requirements will be priced at the rate quoted. Each transaction not processed as outlined, including without limitation retail commercial card transactions in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, MasterCard Rewards Card, MasterCard World Card, MasterCard World Elite Card, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card and all Commercial Cards, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application

- Obtain a single electronic authorization with magnetic strip read or contactless data capture (electronic imprint) at
- the time of sale. Obtain a single electronic authorization and settle for authorized amounts.
- Obtain a cardholder signature (unless transaction is eligible for No Signature Required
- [NSR] program). Settle and transmit batches same day via your terminal/electronic system.
- The electronic authorization amount must be equal to the transaction amount on all Visa debit card transactions unless a Restaurant (MCC 5812), Fast Food (MCC 5814), Service Station (MCC 5541) or, Bar/Tavern (MCC 5513), Beauty/Barber Shop (MCC 7230), or Taxi/Limousines (MCC 4121).
- The electronic authorization amount must be equal to the transaction amount on Discover retail transactions except that Taxi Limousines (MCC 4121) and Beauty/Barber Shop (MCC 7230) merchant transactions may vary up to 20%. Restaurant (MCC 5812), Fast Food (MCC 5814), Service Station (MCC 5541) or Bar/Tavern (MCC 5513) transactions may vary by more than 20% from the electronic authorization without incurring surcharges.

Restaurant Electronic Merchant

If you are a Restaurant Merchant MCC 5812 or Fast Food Merchant MCC 5814 and utilize a certified terminal product or electronic system for authorization and settlement through Global Direct, each consumer card transaction you submit which meets all of the following requirements will be priced at the rate quoted. Each transaction not processed as outlined, in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, MasterCard Rewards Card, MasterCard World Card, MasterCard World Elite Card, Discover Rewards Card, Discover Premium Card, and Discover Premium Plus Card will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Commercial Card transactions that meet these requirements will be subject to the Business Card rate quoted in the Fee Schedule. Commercial Card transactions not processed in accordance with these requirements will be subject to the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a single electronic authorization with magnetic strip read or contactless data capture (electronic imprint) at
- the time of sale. Obtain a cardholder signature (unless transaction is eligible for NSR program).
- Settle and transmit batches same day via your terminal/electronic system.

Supermarket Electronic Merchant

If you are an approved (certified) supermarket merchant and utilize a terminal or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets all of the following requirements will be priced at the rate(s) quoted for Supermarket Credit Card and Supermarket Check Card. Each transaction not processed as outlined, in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, MasterCard Rewards Card, MasterCard World Card, MasterCard World Elite, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card and commercial cards, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a magnetic strip read (card swipe/contactless data capture/electronic imprint) at
- the time of sale. Obtain a single electronic authorization and settle for authorized amounts.
- Obtain a cardholder signature (unless transaction is eligible
- for NSR program). Settle and transmit batches same day via your terminal/electronic system.
- The electronic authorization amount must be equal to the transaction amount on all Visa debit card transactions.

Emerging Market Electronic Merchant

If you qualify as an Emerging Market Merchant (as defined by Association guidelines from time to time) and utilize a terminal or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets all the following requirements will be priced at the rates quoted. Any other transaction, including commercial card transactions, Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, MasterCard Rewards Card, MasterCard World Card, MasterCard World Elite Card, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card, and non-magnetic stripe read foreign transactions will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. In addition, each Visa transaction not processed as outlined, but transmitted same day or next day via your terminal/electronic system, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a single electronic authorization.
- Settle and transmit batches same day via your
- terminal/electronic system. Provide market data as required. See Note.

NOTE: If card is not present and a magnetic stripe read does not occur, then Merchant may be required to comply with "Direct Marketer" market data requirements including AVS request on cardholder billing address at time of authorization. If card is present and cardholder signature is obtained, however the magnetic stripe is damaged, then Merchant may be required to obtain AVS match on cardholder billing address zip code.

MOTO Electronic Merchant

If you are a MOTO Merchant (non-magnetic swipe read transactions), and utilize a certified terminal product or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets all of the following requirements will be priced at the rate quoted. Any other transaction, including all foreign transactions and commercial card transactions in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, MasterCard Rewards Card, MasterCard World Card, MasterCard World Elite Card, Discover Rewards Card, Discover Premium Card, and Discover Premium Plus Card will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain an electronic authorization and settle for authorized amounts (one reversal permitted on Visa transactions to make authorization amount equal to settle amount).
- Address Verification Request in authorization on cardholder billing address. For Discover transactions, Merchant must obtain full address verification request on street number and/or 9 digit postal code.
- CID verification for Discover merchants on non-recurring transactions. Purchase date (settled date) is ship date.
- Send order number with each transaction.

- Settle and transmit batches same day via your terminal/electronic system.
- Send level 3 data (line item detail, sales tax, customer code) with every eligible commercial card transaction.

NOTE: Card Not Present transactions involving one-time, recurring, or installment bill payment transactions are subject to additional card association requirements which must be complied with to avoid surcharges. Electronic commerce transaction requirements are also subject to additional card association requirements which must be complied with to avoid surcharges. Please refer to Card Acceptance Guide for additional requirements.

NOTE: Transactions which utilize our TouchTone Capture system for authorizations and settlement, settle beyond 48 hours, or are not transmitted via the TouchTone Capture system, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

Public Sector Electronic Merchant

If you are an approved (certified) public sector merchant and utilize a terminal or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets all of the following requirements will be priced at the rate(s) quoted for Public Sector. Each transaction not processed as outlined, in addition to transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, MasterCard Rewards Card, MasterCard World Card, MasterCard World Elite, Discover Rewards Card, Discover Premium Card, Discover Premium Plus Card and commercial cards, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a magnetic strip read (card swipe/contactless data capture/electronic imprint) at the time of sale. Obtain a single electronic authorization and settle for authorized amounts.
- Obtain a cardholder signature (unless transaction is eligible for NSR program). Settle and transmit batches same day via your terminal/electronic system.
- The electronic authorization amount must be equal to the transaction amount on all Visa debit card transactions.

Purchase Card Electronic Merchant

If you are a Purchase Card Merchant (non-magnetic swipe read transactions) and utilize a certified terminal product or electronic system for authorization and settlement through Global Direct, each transaction you submit which meets the following requirements will be priced at the rate quoted. Each Visa transaction not processed as outlined, but transmitted same day or next day via your terminal/electronic system, will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Each Visa business and commercial card transaction will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Any other transaction that does not meet the following requirements, including without limitation foreign transactions, tax-exempt Visa Commercial transactions, Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, MasterCard Rewards Card, MasterCard World Card, MasterCard World Elite Card, Discover Rewards Card, Discover Premium Card and Discover Premium Plus Card will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain an electronic authorization and settle for authorized amounts (one reversal permitted on Visa transactions to make authorization amount equal to settled amount).
- Address Verification Request in authorization on cardholder billing address. Purchase date (settled date) is ship date.
- Send order number (customer code) with each transaction. Send tax amount with every transaction.
- Send Level 3 data (line item detail) with every eligible commercial card transaction. Sales tax exempt transactions will not be considered to meet these requirements unless they include Level 3 data (line item detail).
- Settle and transmit batches same day via your terminal/electronic system.

Lodging/Auto Rental Electronic Merchant

If you are a Lodging or Auto Rental Merchant utilizing a terminal or electronic system for authorization and settlement through Global Direct, each consumer card transaction you submit which meets the following requirements will be priced at the rate quoted. Each transaction not processed as outlined, including without limitation non-magnetic stripe read foreign transactions, and transactions using Visa Rewards Card, Visa Signature Card, Visa Signature Preferred Card, Visa Infinite Card, MasterCard Rewards Card, MasterCard World Card, MasterCard World Elite Card, Discover Rewards Card, Discover Premium Card, and Discover Premium Plus Card will be priced at the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Commercial Card transactions that meet these requirements will be subject to the Business Card rate quoted in the Fee Schedule. Commercial Card transactions not processed in accordance with these requirements will be subject to the rate quoted plus the applicable surcharge rate quoted in the Merchant Application.

- Obtain a magnetic swipe read (card swipe/electronic imprint) at the time of check-in.
- Obtain additional electronic authorizations or send partial reversals to bring total authorized amount within 15% of settled amount. Authorizations must meet card association requirements.
- Obtain a cardholder signature for final transaction amount. Purchase Date is hotel check-out date/auto return date.
- Length of guest stay/rental in initial authorization.
- Hotel Folio/Rental Agreement Number and check-in date/check-out date transmitted with each transaction.
- Additional market data may be required for commercial card transactions to avoid surcharges. Lodging merchants who (1) accept credit cards for advance payment; (2) guarantee reservations using a credit card; or (3) provide express check-out services to guests, must comply with additional card association requirements for these services in addition to additional authorization and settlement market data requirements. Lodging merchants who subject charges to final audit and bill for ancillary/additional charges must comply with additional bank card association requirements for these services in addition to additional authorization and settlement market data requirements to avoid surcharges. These transactions may also be subject to the rate quoted plus the applicable surcharge rate quoted in the Merchant Application. Please see Card Acceptance Guide for requirements and best practices for these transactions.

Paper Deposit Merchant

Non-terminal/electronic paper deposit transactions will be priced at the rate quoted in the Card Services Fee Schedule of the Merchant Application.

Debit Card Merchant

Each debit card transaction will be assessed the network's acquirer fee in addition to the debit card per item fee quoted in the Card Services Fee Schedule of the Merchant Application.

Card Present: / Mag Stripe Failure:

A magnetic stripe read is also referred to as an electronic imprint. If the magnetic stripe is damaged, then other validation means may be required to protect against counterfeit cards and merchant must obtain a manual imprint. Most products, including the payment application, if any, will prompt for cardholder billing zip code and perform an AVS check for a zip code match. CID verification is recommended for Discover key-entered transactions. Key-entered retail transactions are subject to higher interchange and surcharges.

The foregoing information regarding surcharging is not comprehensive and is subject to change by the card association. Additional or different rates or fees may apply based on the details of a subject transaction.

All questions regarding Card Services should be referred to Global Payments Direct Inc. – 3550 Lenox Road NE, Suite 3000, Atlanta GA. 30326, or call: 1-800-367-2638. Note: Billing disputes must be forwarded, in writing, to Customer Service within 60 days of the date of the statement and/or notice.

Contact information for Member is listed in the Merchant Application.

Global Payments Direct Inc. is a registered ISO of BMO Harris Bank N.A. and Wells Fargo Bank, N.A.

Debit sponsorship is provided by Old Line Bank - 1525 Pointer Ridge Place, Bowie, MD. 20716, 1(800)617-7511.

ADDENDUM A

1. **Equipment Selection and Rental Term.** This addendum to the Card Services Agreement (the "Agreement") to which it is attached governs the rental (the "Rental") of any point of sale equipment ("Equipment") by You under the Agreement, as indicated on the application pages or any subsequent order form (the "Application"). The initial term ("Initial Term") shall be set forth on the Application. After expiration of the Initial Term, the Rental shall be automatically extended for successive one (1) month periods (each a "Renewal") on the same terms and conditions expressed herein, or as may be amended, unless you give written notice of termination at least ten (10) days prior to the expiration of the Initial Term or any Renewals.
2. **Fees and Charges.** Each item of Equipment selected by you, as well as its respective monthly rental charge and current replacement cost, are set forth on the Application. After the Initial Term, OpenEdge may increase rental charges at any time upon sixty (60) days written notice. You authorize OpenEdge to debit your merchant bank account, for all charges incurred by you under the Agreement, including any charges incurred by OpenEdge on your behalf, for the Equipment provided for in this Agreement. If your account contains insufficient funds to accommodate such debit, you authorize OpenEdge to charge your account a one and one-half percent (1½%) per month service charge on all amounts that are not paid on the due date. You will be sent a statement indicating the amount debited to your account. In the event that any amount due hereunder is not timely paid as provided herein, OpenEdge may, in addition to any other right or remedy which it may have under this Agreement or at law, terminate the Rental if you do not effect payment in full within ten (10) days of OpenEdge's written demand therefor. You agree to reimburse OpenEdge for all costs and expenses, including reasonable attorneys' fees, incurred by OpenEdge in enforcing collection of any monies due it under the Agreement. You shall reimburse OpenEdge for (or pay directly if instructed by OpenEdge) all charges and taxes that may now or hereafter be imposed or levied upon the rental, possession or use of the Equipment, excluding all taxes on or measured by OpenEdge's net income.
3. **Title and Loss.** Any rented Equipment is OpenEdge's property and will not become your property. Notwithstanding any attachment, such Equipment will remain personal property and not become a fixture. You will protect such Equipment from loss, theft, damage or any legal encumbrance. Title to rented Equipment, as well as all alterations or repairs made or parts added to such Equipment, shall remain in OpenEdge. You agree to give OpenEdge a security interest in all such Equipment, as applicable. At OpenEdge's request, you shall execute and deliver, at your expense, any security agreement or other document reasonably required to document or perfect OpenEdge's security interest in such Equipment. It is understood and agreed that the rights of OpenEdge under such security interest shall be in addition to the rights and/or remedies otherwise available to Global under the terms of this Agreement, and not in limitation thereof. Upon delivery of Equipment, you shall bear the entire risk of loss, theft, destruction of or damage to the Equipment or any portion thereof from any cause whatsoever ("Loss or Damage"), whether or not covered by insurance. No Loss or Damage shall relieve you from your obligations hereunder. OpenEdge shall provide you with operating instructions that will instruct you in the proper use of the Equipment, and you shall install, use and operate the Equipment only in such manner and in accordance with card association requirements. You are responsible for providing all necessary connections and other facilities and for paying all expenses of installing and operating the Equipment. You shall provide the Equipment with a suitable secure space and power for its proper operation. You shall provide all necessary infrastructure, including without limitation, power outlets, grounding and anti-static environments required for the safe and efficient operation of the Equipment in accordance with the specifications of OpenEdge and any other applicable specifications or regulations. You shall not move the Equipment, attach any devices, change your method of telecommunication (including but not limited to using Voice over IP (VoIP) technology) or install any software without OpenEdge's prior written consent. With respect to any item of Equipment rented to you by OpenEdge, you will not be liable for normal wear and tear, provided, however, that you will be liable to OpenEdge in the event that any rented item of Equipment is lost, destroyed, stolen or rendered inoperative. You will indemnify OpenEdge against any loss arising out of, damage to or destruction of any item of Equipment for any cause whatsoever and for any costs, expenses, and judgments OpenEdge may suffer, including reasonable attorneys' fees, arising from the use of the Equipment. The cryptographic keys loaded into the PIN Pad(s) by OpenEdge are used to encode and authenticate information. They are provided by OpenEdge in connection with meeting Card Association obligations and are the property of an authorized Card Association member and are not to be altered by You on any Equipment.
4. **Software.** You acknowledge that the Equipment provided hereunder is embedded with proprietary technology ("Software"). Furthermore, the term "Software" includes any programs, applications or proprietary technology that is otherwise provided or made available to you under this Agreement, independent of Equipment. At all times, OpenEdge or its suppliers retain all rights to such Software, including, but not limited to updates, enhancements and additions. All material and information made available by OpenEdge, including but not limited to the Equipment and Software, shall be protected by you as confidential and proprietary information of OpenEdge and/or its suppliers, and your use thereof shall be limited to that expressly authorized by OpenEdge. You shall not disclose OpenEdge's confidential or proprietary information to any third party unless such disclosure is authorized in advance in writing by OpenEdge. Nothing in this Agreement contemplates, constitutes or creates a transfer or license of any intellectual property to you. You shall not obtain title, copyrights, or any other proprietary right to any Software. You shall not commit any act or assist anyone else to commit any act to copy, modify, alter, translate, attempt to change, reprogram, decompile, emulate, reverse engineer or tamper with the Software in any way, or commit any act or assist anyone else to commit any act that otherwise rearranges the Equipment or the Software. You shall not create or attempt to create any derivative work based on the Software or assist anyone else in doing so. You shall not sell, license, sublicense, or convey any rented Equipment to a third party without the prior written consent of OpenEdge. OpenEdge's suppliers of Equipment and/or Software are third party beneficiaries of the Agreement with the right to rely on and directly enforce the terms of this Agreement against you to protect their ownership rights. You are liable to OpenEdge and/or to such third party beneficiaries for any transferee's conduct with regard to the Software. You will indemnify OpenEdge for any costs, expenses and judgments OpenEdge may suffer, including reasonable attorneys' fees, arising from your breach of this Section 4 or otherwise arising out of use of the Software.
5. **Maintenance.** You will promptly notify OpenEdge of any Equipment malfunction, failure or other incident resulting in the loss of use of the Equipment or need for repair or maintenance, whereupon OpenEdge will make the necessary arrangements to obtain required maintenance. You may be responsible for shipping cost. You shall cooperate with OpenEdge in its attempt to diagnose any problem with the terminal. In the event your terminal requires additional software, you are obligated to cooperate and participate in downloading and installing such software. Maintenance service provided under this Agreement may include replacing an item of Equipment or a component thereof, if OpenEdge determines in its sole discretion that the need for replacement arose from ordinary wear and tear, and that such replacement is necessary for the Equipment to function in accordance with its written specifications. Replaced items of Equipment and/or components thereof are OpenEdge's property; you are required to ship them to OpenEdge within thirty (30) days of their replacement, and they will not be returned to you. Maintenance service provided under this Agreement is available only for Equipment that has been handled and operated appropriately, and does not include services arising out of the negligence or misconduct by you, your employees, agents, customers or contractors or your failure to comply with any and all instructions and specifications provided by OpenEdge or the manufacturer of the Equipment; if any such replaced Equipment is determined by OpenEdge to be unrepairable, or if you have failed to ship any replaced Equipment to OpenEdge within thirty (30) days of its replacement, OpenEdge shall have the right to debit your account for the then current replacement cost of such Equipment.

Rev. 10-18-GP-WF-OE-MUA

6. Access to Premises. You will allow OpenEdge and its designated representatives physical and electronic access to the Equipment upon request, including permitting prompt and safe access to your premises when required for the purpose of performing OpenEdge's obligations and/or for the inspection, repair, removal, modification, installation, replacement, disconnection and/or relocation of the Equipment.
7. Warranties and Representations. Neither OpenEdge nor its suppliers make any representations or warranties, express or implied, including without limitation any warranty of merchantability or fitness for a particular purpose with respect to any terminal, any equipment, the software residing therein or any of the services furnished hereunder. If there are problems with the Equipment, OpenEdge may give notice to you to immediately cease using the Equipment; your failure to comply with any such instructions from OpenEdge could result in your incurring losses, for which OpenEdge shall have no liability to you whatsoever.
8. Limitation of Liability. OpenEdge shall not be liable for failure to provide the Equipment if such failure is due to any cause or condition beyond OpenEdge's reasonable control. Such causes or conditions shall include, but shall not be limited to, acts of God or of the public enemy, acts of the Government in either its sovereign or contractual capacity, fires, floods, epidemics, quarantine restrictions, strikes, shortages of labor or materials, freight embargoes, unusually severe weather, breakdowns, operational failures, electrical power failures, communication failures, unavoidable delays, or other similar causes beyond OpenEdge's control. OpenEdge's suppliers disclaim all liabilities under this Agreement. The liability of OpenEdge, if any, for any loss hereunder, including but not limited to damages arising out of any malfunction of the Equipment or the failure of the Equipment to operate, personal injury, property damage, or cause of action under contract, negligence, tort, statute, warranty, or infringement shall, in the aggregate, be limited to actual, direct, and general money damages in an amount not to exceed one (1) month's average charge paid hereunder by you for the rented Equipment during the previous twelve (12) months or such lesser number of months as shall have elapsed subsequent to the effective date of this Agreement. The foregoing represents the sole extent of OpenEdge's liability in the event of any alleged default by OpenEdge under this Agreement, including alleged acts of negligence, breach of contract, or otherwise, and regardless of the form in which any legal or equitable action may be brought against OpenEdge, and the foregoing shall constitute your exclusive remedy. OpenEdge shall have no liability whatsoever arising from use of the Equipment in connection with software or services not authorized by OpenEdge. Under no circumstances shall OpenEdge be liable for any loss of anticipated profits, lost interest, or for special, consequential, punitive or exemplary damages, even if OpenEdge has been advised of the possibility of such damages. In no event shall OpenEdge be liable for any claim, loss, billing error, damage, or expense caused by OpenEdge's performance or failure to perform hereunder which is not reported in writing to OpenEdge by you within thirty (30) days of such failure to perform, or in the event of a billing error, within sixty (60) days of the invoice or applicable statement. Neither party may institute any action in any form arising out of or in connection with this Agreement more than two (2) years after the cause of action has arisen, or in the case of non-payment, more than two (2) years from the date of last payment or promise to pay, except that this limitation shall not apply to an action for non-payment of taxes.
9. Termination. You may terminate a Rental by notifying OpenEdge in writing of your intent to terminate, subject to a \$50 re-stocking fee. In the event that you terminate this Agreement in breach of this Section 10, all monthly fees assessed to you and payable to OpenEdge under this Agreement for the remainder of the then-current Initial Term or Renewal shall be immediately due and payable to OpenEdge, and you hereby authorize OpenEdge to accelerate the payment of all such monthly fees and to deduct the total amount from your merchant bank account identified above. If such account does not contain sufficient funds for the debit, you shall pay OpenEdge the amount due within ten (10) days of the date of OpenEdge's invoice for same. The payment of accelerated monthly fees as described herein is not a penalty, but rather is hereby agreed by the parties to be a reasonable amount of liquidated damages to compensate OpenEdge for its termination expenses and all other damages under the circumstances in which such amounts would be payable. Such amounts shall not be in lieu of but in addition to any payment obligations otherwise incurred by you under this Agreement, which shall be an additional cost, and any and all other damages to which OpenEdge may be entitled hereunder. If you default under a Rental, or any other agreement between you and an affiliate of OpenEdge, and such default continues for ten (10) days after OpenEdge's written notice, OpenEdge may terminate this Agreement, declare the entire amount of the unpaid balance and any other charges to be immediately due and payable and exercise any other remedy existing at law or in equity, including the right to enter upon your premises without notice and repossess any Equipment not owned by you. If you default, OpenEdge may require you, at your expense, to return such Equipment to OpenEdge in the same condition as when delivered to you hereunder, ordinary wear and tear resulting from proper use alone excepted, free and clear of all liens, encumbrances or rights of others whatsoever. You are responsible for return shipping costs if you terminate for any reason other than a breach of the Agreement by OpenEdge, and agree to contact OpenEdge for instructions regarding return of the Equipment and to promptly comply therewith. In the event that OpenEdge breaches the terms and conditions hereof, you may, at your option, give written notice of your intention to terminate the Rental unless such breach is remedied within thirty (30) days of such notice. Failure to remedy such a breach shall make the Rental terminable, at your option, at the end of such thirty (30) day period unless notification is withdrawn. If you have failed to ship any Equipment to OpenEdge within thirty (30) days of termination of this Agreement, OpenEdge shall have the right to debit your account for the full then-current replacement cost of such Equipment. Software license rights provided under this Agreement through a third party may be suspended, modified or terminated in whole or in part at any time without liability to you.
10. Survival. All terms of this Addendum shall survive expiration or termination of the Agreement to the extent necessary to fulfill the purposes of this Addendum.



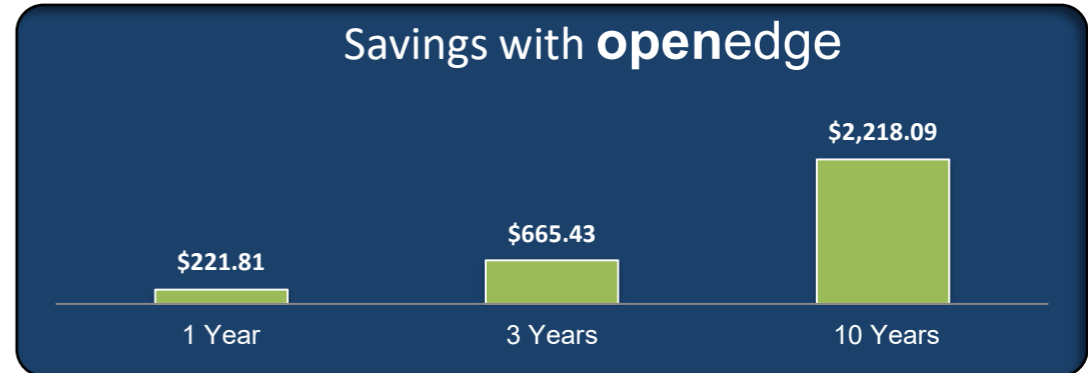
West Valley Water District(4385)

Analysis based on data supplied for processing month:
Quote subject to change after 30 days

Dec-19
2/25/2020

SUMMARY

	Current Processor	openedge
Total Volume	\$64,530.33	\$64,530.33
Total Transactions	641	641
Total Fees	\$761.19	\$742.71
Effective Rate	1.18%	1.15%
\$ Monthly Savings		\$18.48
% Monthly Savings		2%
Annual Savings		\$221.81



DETAIL

Card Type	Charge Type	# Trans	\$ Sales	Current Processor			openedge		
				% Disc	Per Item	Total Fees	% Disc	Per Item	Total Fees
VISA	Qualified	21	\$2,268.24	0.150%	0.000	\$3.40	0.120%	0.120	\$5.24
VISA	Qualified	39	\$3,743.17	0.150%	0.000	\$5.61	0.120%	0.120	\$9.17
MC	Qualified	57	\$7,014.05	0.150%	0.000	\$10.52	0.120%	0.120	\$15.26
VISA	Qualified	120	\$16,031.03	0.150%	0.000	\$24.05	0.120%	0.120	\$33.64
DISC	Qualified	2	\$219.72	0.150%	0.000	\$0.33	0.120%	0.120	\$0.50
AMEX	Qualified	5	\$709.30	0.150%	0.000	\$1.06	0.120%	0.120	\$1.45
PIN DEBIT	Network Fees Estimate	397	\$34,544.82	0.000%	0.000	\$160.34	0.000%	0.000	\$160.34
PIN DEBIT	Transaction Fees	397	\$34,544.82	0.150%	0.150	\$111.37	0.000%	0.200	\$79.40
DS/VISA/MC	Auth. Fees	180	\$0.00	0.000%	0.050	\$9.00	0.000%	0.000	\$0.00
DS/VISA/MC/AX	Interchange	244	\$29,985.51	0.000%	0.000	\$375.86	0.000%	0.000	\$375.86
VISA	Trans. Integrity Fee	4	\$0.00	0.000%	0.100	\$0.40	0.000%	0.100	\$0.40
MC	High Ticket Assessment	0	\$1,320.15	0.010%	0.000	\$0.13	0.010%	0.000	\$0.13
MC	AVS Fees	6	\$0.00	0.000%	0.010	\$0.06	0.000%	0.000	\$0.00
VISA	Assessments	180	\$22,042.44	0.136%	0.000	\$29.98	0.136%	0.000	\$29.98
MC	Assessments	57	\$7,014.05	0.130%	0.000	\$9.12	0.130%	0.000	\$9.12
DISC	Assessments	2	\$219.72	0.130%	0.000	\$0.29	0.130%	0.000	\$0.29
AMEX	Assessments	5	\$709.30	0.150%	0.000	\$1.06	0.150%	0.000	\$1.06
MC	Licensing Fee	57	\$7,014.05	0.002%	0.0000	\$0.15	0.020%	0.000	\$1.40
VISA	Kilobyte Fees	180	\$22,042.44	0.000%	0.0018	\$0.32	0.000%	0.0085	\$1.53
MC	NABU Fees	57	\$0.00	0.000%	0.0195	\$1.11	0.000%	0.0195	\$1.11
DISC	Access Fees	2	\$0.00	0.000%	0.0195	\$0.04	0.000%	0.0195	\$0.04
VISA	APF Fees	59	\$0.00	0.000%	0.0195	\$1.15	0.000%	0.0195	\$1.15
VISA DEBIT	APF Fees	118	\$0.00	0.000%	0.0155	\$1.83	0.000%	0.0155	\$1.83
FEE	Regulatory Compliance Fee	0	\$0.00	0.000%	0.000	\$0.00	0.000%	0.000	\$5.60
FEE	MC Monthly Location Fee	0	\$0.00	0.000%	0.000	\$0.00	0.000%	0.000	\$1.25
FEE	VISA FANF	0	\$0.00	0.000%	0.000	\$9.00	0.000%	0.000	\$6.95
FEE	Monthly Fees					\$5.00			\$0.00
		641	\$64,530.33			\$761.19			\$742.71

POTENTIAL MONTHLY SAVINGS \$18.48
POTENTIAL YEARLY SAVINGS \$221.81
PERCENTAGE SAVINGS 2%



West Valley Water District(3859)
 Analysis based on data supplied for processing month:
 Quote subject to change after 30 days

Dec-19
 2/25/2020

SUMMARY

	Current Processor	openedge
Total Volume	\$464,394.59	\$464,394.59
Total Transactions	4264	4264
Total Fees	\$7,557.64	\$7,277.77
Effective Rate	1.63%	1.57%
\$ Monthly Savings		\$279.86
% Monthly Savings		4%
Annual Savings		\$3,358.37



DETAIL

Card Type	Charge Type	# Trans	\$ Sales	Current Processor			openedge		
				% Disc	Per Item	Total Fees	% Disc	Per Item	Total Fees
VISA	Qualified	3295	\$296,102.59	0.000%	0.263	\$864.94	0.120%	0.120	\$750.72
MC	Qualified	903	\$162,391.62	0.000%	0.263	\$237.04	0.120%	0.120	\$303.23
DISC	Qualified	0	\$0.00	0.000%	0.000	\$0.00	0.120%	0.120	\$0.00
AMEX	Qualified	66	\$5,900.38	0.000%	0.250	\$16.50	0.120%	0.120	\$15.00
DS/VISA/MC	Excess Auth. Fees	227	\$0.00	0.000%	0.263	\$59.59	0.000%	0.000	\$0.00
DS/VISA/MC/AX	Interchange	4264	\$464,394.59	0.000%	0.000	\$5,393.46	0.000%	0.000	\$5,393.46
VISA	ISA Fee	0	\$95.77	1.000%	0.000	\$0.96	1.000%	0.000	\$0.96
VISA	IAF Fee	0	\$95.77	0.450%	0.000	\$0.43	0.450%	0.000	\$0.43
MC	Digital Enablement Fee	0	\$164,919.94	0.010%	0.000	\$16.49	0.010%	0.000	\$16.49
MC	Cross Border Fee	0	\$159.02	0.600%	0.000	\$0.95	0.600%	0.000	\$0.95
MC	Acq. Support Fee	0	\$159.02	0.850%	0.000	\$1.35	0.850%	0.000	\$1.35
MC	High Ticket Assessment	0	\$72,579.63	0.015%	0.000	\$10.89	0.010%	0.000	\$7.26
FEE	Chargeback Fee	1	\$0.00	0.000%	15.000	\$15.00	0.000%	15.000	\$15.00
FEE	Access Fees	0	\$0.00	0.000%	0.000	\$33.75	0.000%	0.000	\$0.00
MC	AVS Fees	956	\$0.00	0.000%	0.010	\$9.56	0.000%	0.000	\$0.00
VISA	Issuer Settlement Fee	0	\$0.00	0.000%	0.0000	\$1.41	0.000%	0.000	\$0.00
VISA	Assessments	3295	\$296,102.59	0.135%	0.000	\$398.64	0.135%	0.000	\$398.64
MC	Assessments	903	\$164,919.94	0.130%	0.000	\$214.40	0.130%	0.000	\$214.40
DISC	Assessments	0	\$0.00	0.130%	0.000	\$0.00	0.130%	0.000	\$0.00
AMEX	Assessments	66	\$6,160.61	0.150%	0.000	\$9.24	0.150%	0.000	\$9.24
MC	Licensing Fee	903	\$164,919.94	0.009%	0.0000	\$14.84	0.020%	0.000	\$32.98
VISA	Kilobyte Fees	3269	\$296,102.59	0.000%	0.0018	\$5.88	0.000%	0.0085	\$27.79
MC	NABU Fees	956	\$0.00	0.000%	0.0195	\$18.64	0.000%	0.0195	\$18.64
DISC	Access Fees	0	\$0.00	0.000%	0.0195	\$0.00	0.000%	0.0195	\$0.00
VISA	APF Fees	922	\$0.00	0.000%	0.0195	\$17.98	0.000%	0.0195	\$17.98
VISA DEBIT	APF Fees	2545	\$0.00	0.000%	0.0155	\$39.45	0.000%	0.0155	\$39.45
FEE	Regulatory Compliance Fee	0	\$0.00	0.000%	0.000	\$0.00	0.000%	0.000	\$5.60
FEE	MC Monthly Location Fee	0	\$0.00	0.000%	0.000	\$1.25	0.000%	0.000	\$1.25
FEE	VISA FANF	0	\$0.00	0.000%	0.000	\$160.00	0.000%	0.000	\$6.95
FEE	Monthly Fees					\$15.00			\$0.00
		4264	\$464,394.59			\$7,557.64			\$7,277.77

POTENTIAL MONTHLY SAVINGS \$279.86
POTENTIAL YEARLY SAVINGS \$3,358.37
PERCENTAGE SAVINGS 4%

*Current processor's ACH fees excluded.

*****Current processor's monthly PCI Non Compliance Fee of \$19.95 has been excluded from this analysis. A non compliance fee of \$39.00 may be assessed if the merchant does not become PCI compliant.



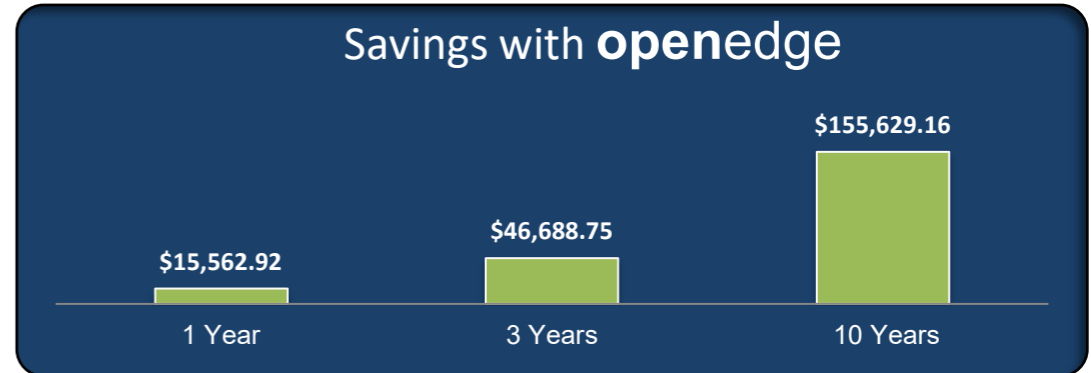
West Valley Water District(1217)

Analysis based on data supplied for processing month:
Quote subject to change after 30 days

Dec-19
2/25/2020

SUMMARY

	Current Processor	openedge
Total Volume	\$285,586.68	\$285,586.68
Total Transactions	3136	3136
Total Fees	\$4,415.02	\$3,118.11
Effective Rate	1.55%	1.09%
\$ Monthly Savings		\$1,296.91
% Monthly Savings		29%
Annual Savings		\$15,562.92



DETAIL

Card Type	Charge Type	# Trans	\$ Sales	Current Processor			openedge		
				% Disc	Per Item	Total Fees	% Disc	Per Item	Total Fees
VISA	Qualified	2685	\$244,462.28	0.550%	0.100	\$1,613.04	0.120%	0.120	\$615.55
MC	Qualified	451	\$41,124.40	0.550%	0.100	\$271.28	0.120%	0.120	\$103.47
DS/VISA/MC	Excess Auth. Fees	62	\$0.00	0.000%	0.100	\$6.20	0.000%	0.000	\$0.00
DS/VISA/MC/AX	Interchange	3136	\$285,586.68	0.000%	0.000	\$1,907.14	0.000%	0.000	\$1,907.14
VISA	ISA Fee	0	\$70.50	1.000%	0.000	\$0.71	1.000%	0.000	\$0.71
VISA	IAF Fee	0	\$70.50	0.000%	0.000	\$0.00	0.450%	0.000	\$0.32
MC	Digital Enablement Fee	0	\$42,310.11	0.010%	0.000	\$4.23	0.010%	0.000	\$4.23
MC	CVC2 Fee	462	\$0.00	0.000%	0.0025	\$1.16	0.000%	0.0025	\$1.16
MC	Cross Border Fee	0	\$0.00	0.600%	0.000	\$0.00	0.600%	0.000	\$0.00
MC	Acq. Support Fee	0	\$0.00	0.850%	0.000	\$0.00	0.850%	0.000	\$0.00
FEE	PCI ASSURE Monthly Fee***	1	\$0.00	0.000%	6.580	\$6.58	0.000%	14.750	\$14.75
DISC	Network Auth Fee	0	\$0.00	0.000%	0.0025	\$0.00	0.000%	0.0025	\$0.00
VISA	Assessments	2685	\$244,462.28	0.131%	0.000	\$320.10	0.131%	0.000	\$320.10
MC	Assessments	451	\$41,124.40	0.130%	0.000	\$53.46	0.130%	0.000	\$53.46
DISC	Assessments	0	\$0.00	0.130%	0.000	\$0.00	0.130%	0.000	\$0.00
AMEX	Assessments	0	\$0.00	0.150%	0.000	\$0.00	0.150%	0.000	\$0.00
MC	Licensing Fee	451	\$41,124.40	0.006%	0.0000	\$2.51	0.020%	0.000	\$8.22
VISA	Kilobyte Fees	2685	\$244,462.28	0.000%	0.0018	\$4.83	0.000%	0.0085	\$22.82
MC	NABU Fees	467	\$0.00	0.000%	0.0195	\$9.11	0.000%	0.0195	\$9.11
DISC	Access Fees	0	\$0.00	0.000%	0.0195	\$0.00	0.000%	0.0195	\$0.00
VISA	APF Fees	244	\$0.00	0.000%	0.0195	\$4.76	0.000%	0.0195	\$4.76
VISA DEBIT	APF Fees	2485	\$0.00	0.000%	0.0155	\$38.52	0.000%	0.0155	\$38.52
FEE	Batch Fees	29	\$0.00	0.000%	0.350	\$10.15	0.000%	0.000	\$0.00
FEE	Regulatory Compliance Fee	0	\$0.00	0.000%	0.000	\$0.00	0.000%	0.000	\$5.60
FEE	MC Monthly Location Fee	0	\$0.00	0.000%	0.000	\$1.25	0.000%	0.000	\$1.25
FEE	VISA FANF	0	\$0.00	0.000%	0.000	\$160.00	0.000%	0.000	\$6.95
FEE	Monthly Fees					\$0.00			\$0.00
		3136	\$285,586.68			\$4,415.02			\$3,118.11

POTENTIAL MONTHLY SAVINGS \$1,296.91
POTENTIAL YEARLY SAVINGS \$15,562.92
PERCENTAGE SAVINGS 29%



Open Edge Integration to Tyler Incode - Sole Source Letter

To Whom It May Concern:

This letter is to confirm that OpenEdge, owns all rights, title and license in and to, the OpenEdge payment processing solution and related services (collectively, the "OpenEdge Solution"). OpenEdge is the only authorized developer and licensor of the OpenEdge Solution and, except as set forth in agreements with its marketing partners, is the only entity authorized to implement, promote and maintain the OpenEdge Solution.

Open Edge is a Tyler Technologies, Inc. ("Tyler") Preferred Partner. Tyler is an authorized marketing partner of OpenEdge. The OpenEdge Solution is an integrated payment processing solution that directly integrates with mutually agreed upon Tyler software products, including those applications that have been identified to you as "Incode."

Open Edge is the only solution provider for Tyler products that offers an integrated system for: automated bank reconciliation, direct refunds to credit card accounts, one-step voided payments.

Tyler is contractually authorized to include the OpenEdge Solution, including the terms and conditions applicable to that Solution, in Tyler-client contracts, or amendments thereto.

OpenEdge is currently the only solution that can meet Tyler's comprehensive requirements for a fully integrated, highly secure, credit card processing system.

Tyler Technologies, Inc.

By: 

Name: Shane Shepherd

Title: Director

Date: 01/23/2019



**BOARD OF DIRECTORS
STAFF REPORT**

DATE: March 5, 2020
TO: Board of Directors
FROM: Clarence Mansell Jr., General Manager
SUBJECT: WVWD FY18-19 CAFR

DISCUSSION:

West Valley Water District (the "District") engaged the audit firm of Pun Group to complete the annual audit of the District's financial position for the fiscal year ended June 30, 2019.

The Comprehensive Annual Financial Report was prepared in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's office and state regulations governing special districts.

FISCAL IMPACT:

Cost to conduct and report the audit was included in the FY 18-19 annual budget.

STAFF RECOMMENDATION:

Board of Directors to receive and file the annual CAFR report and SAS 114 Letter for the years ended June 30, 2020. The annual CAFR report and SAS 114 Letter: Auditors Communication With Those Charged With Governance are attached.

Respectfully Submitted,

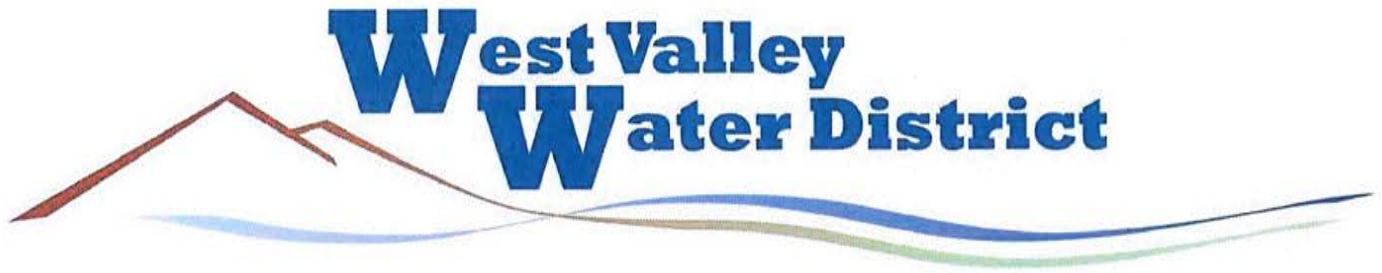
A handwritten signature in blue ink that reads "Clarence C. Mansell Jr." is positioned above a horizontal line.

Clarence Mansell Jr, General Manager

RM

ATTACHMENT(S):

1. 2019_West Valley Water District_FINAL
2. West Valley Water District_SAS 114 Commun with Governance_FINAL
3. West Valley Water District_FINAL Matters Report



**Comprehensive Annual Financial Report
For the Year Ended June 30, 2019**





Comprehensive Annual Financial Report
For the Year Ended June 30, 2019

West Valley Water District
855 W. Baseline Road
Rialto, California 92376

Prepared by:
West Valley Water District Accounting Department

West Valley Water District

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January 20, 2020

Board of Directors
West Valley Water District

Introduction

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the West Valley Water District (“District”) for the fiscal year ended June 30, 2019, prepared in accordance with generally accepted accounting principles following guidelines set forth by the Governmental Accounting Standards Board (GASB). District staff prepared this financial report and the District is ultimately responsible for both the accuracy of the data as well as the completeness and fairness of the presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District’s financial position and activities.

The Pun Group LLP has issued an unmodified (“clean”) opinion of the District’s financial statements for the year ended June 30, 2019. The independent auditor’s report is located at the front of the financial section of this report.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management’s Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District’s MD&A can be found immediately after the Independent Auditor’s Report.

District Structure and Leadership

The District is an independent special district, which operates under the authority of Division 12 of the California Water Code. Formed in 1952, the District is governed by a five member Board of Directors (“Board”), elected at-large from within the District’s service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board. The District employs approximately 89 regular employees in various functions including operations, maintenance, engineering, finance, customer service, meter reading, human resources, conservation, external affairs, business systems, information technology, and administration. The Board meets on the first and third Thursdays of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water service to approximately 22,193 connections within its thirty-two (32) square mile service area, located in southwestern San Bernardino County with a small area of northwestern Riverside County. The service area encompasses one half of the City of Rialto, portions of Bloomington, Colton, Fontana, Jurupa Valley, and some of the unincorporated areas of San Bernardino and Riverside counties.

District Services

Residential customers represent approximately 93% of the District’s customer base and consume approximately 66% of the water produced annually by the District. The District currently has a total of 17 groundwater wells with a maximum production capacity of approximately 42,000 Acre-Feet per year. The District also operates a surface water treatment plant with a capacity of 14.4 million gallons per day (mgd) and a biological treatment plant for perchlorate destruction with a capacity of 3.9 (mgd).

Economic Condition and Outlook

The District's Office is located in the City of Rialto in San Bernardino County. San Bernardino and Riverside counties (also known as the Inland Empire) have begun to witness increased economic activity from new development as the region continues to recover from the recent recession. The District's source of water production comes from various sources which include: 1) local water from several groundwater basins, 2) surface water from Lytle Creek in the San Bernardino Mountains, and 3) the California State Water Project – Silverwood Lake.

The District has also teamed up with the City of Rialto and is operating a state-approved biological treatment process “bioremediation” that employs naturally occurring micro-organisms to remove perchlorate and other contaminants in the basins drinking water supplies as well as reduce the need for waste handling and disposal in a cost effective manner. The District considers this to be the first major step in a regional undertaking that will ultimately restore the region's groundwater resources.

Status of Drought Conditions

On April 7, 2017, Governor Edmund G. Brown J. issued Executive Order B-40-17 lifting the drought emergency in most of California, while maintaining water reporting requirements and prohibitions on wasteful processes, encouraging, and continuing making water conservation a way of life.

The District continues to support its customers by providing rebates that incentivize a change in habit and promote awareness on water conservation and efficiency. The District continues to depend heavily on groundwater supplies that are replenished by local precipitation and conservation will continue to be key to our growing region of Inland Southern California.

Major Initiatives

The activities of the Board and staff are driven by our mission statement, “to provide our customers with safe, high quality, and reliable drinking water service at a reasonable rate and in a sustainable manner.” To that end, the District's major priorities include the following:

1. Continue to deliver safe, reliable, high quality water at an affordable price.
2. Nurture a culture that values our employees, customer service, innovation, integrity, excellence, transparency, and conservation.
3. Implement technologies that increase efficiency and enhance safety.
4. Plan and be prepared for anticipated significant housing growth in the District.
5. Further refine procedures to ensure the District safeguards ratepayer funds, operates efficiently, enhances transparency, and protects employees and District assets.

All programs and operations of the District are developed and performed at the highest level to ensure that quality water is delivered to all of its customers.

Accomplishments

The District has achieved the following initiatives in fiscal year 2018-19:

1. For the eight consecutive year, the District received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the 2018 Comprehensive Annual Financial Report. This award is one of the best practices for local governments seeking to provide greater transparency and ease of understanding in financial reporting.
2. Completed five well rehabilitation projects (Wells 7, 8A, 15 & 54).
3. Completed the installation of a deaeration tank at Well 54 to remove excess air from the groundwater.

4. Developed a blending plan for Well 2 which was permitted by the state.
5. Completed relocation of ion exchange vessels to Well 41 for the perchlorate removal.
6. Constructed 30-Inch Transmission Main in Highland Avenue from Pepper Avenue to Oakdale Avenue.
7. Constructed 12-Inch Waterline, Service and Fire Hydrants in Persimmon Avenue, Summit Avenue, and Linden Avenue.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles and is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The Board annually adopts an operating and capital budget prior to the new fiscal year beginning July 1st of each year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board has adopted an investment policy that conforms to state law, District ordinances, and resolutions, prudent money management principles, and "prudent person" standards. The objective of the Investment Policy is safety, liquidity, and yield. District funds are normally invested in the State Treasurer's Local Agency Investment Fund, CalTRUST institutional savings, Federal government Treasury notes, agency obligations and other investments.

Long-Term Financial Planning

The District's financial plan includes the establishment of reserve funds in accordance with the District's Reserve Policy. Reserve funds are set to ensure the continued orderly operation of the District's water system, the provision of services to customers at established levels, and the continued stability of the District's rate structure. The District has committed to the following objectives in the Reserve Policy as of June 30, 2019.

1. The District will strive to adopt a balanced budget.
2. Capital Reserves are established to provide funds for capital facility and equipment replacement.
3. Liquidity Reserves are established to safeguard the financial flexibility and stability of the District and to maintain stable customer charges and rates.
4. Restricted Reserves are maintained to comply with restrictions imposed by outside sources such as creditors, grantors, contributors, laws, or regulations.

Debt Administration

The District has received and maintained a credit rating of AA- from Standard and Poor's. Revenue Bonds were issued in December 2016. The bond proceeds were used to pay off 2006D-2 Installment Purchase Agreement.

Other Postemployment Benefits Pre-Funding

In fiscal year 2014, the District began participating in a program to pre-fund the cost of its post-employment benefits plan through the California Public Employees Retirement System (CalPERS) Trust. The District annually contributes funding.

Water Rates and District Revenues

In 2013, the District changed its rate structure from uniform rates to tiered rates and established rate increases for five consecutive years through 2017. Following a financial study in 2015, the District concluded that previously approved rate increases for 2016 and 2017 were unnecessary. In 2018, the District issued a rebate to customers for 2017 water consumption charges averaging \$100 in May 2018. The District remains in sound financial condition with adequate reserves going forward.

Water Conservation Programs

As the District responds to changing conservation regulations at the state level, Ordinance 83 represents the current approach to water conservation. Adopted on August 18, 2016 along with a move to Stage 2 watering restrictions, Ordinance 83 incorporates the District's 15% voluntary conservation standard. The standards provide additional flexibility for our customers while improving the clarity of the regulations in order to support meeting conservation goals. The District will also maintain conservation educational programs in partnership with the school districts and community groups, continue indoor and outdoor rebates and water audits, and implement grant programs encouraging turf replacement projects in disadvantaged communities.

Independent Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of The Pun Group, LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Risk Management

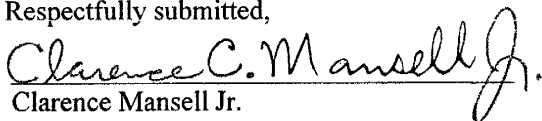
The District is a member of the Association of California Water Agencies Joint Power Insurance Authority (Authority). The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The District's Human Resources/Risk Management Department provides staff with regular safety training each month as part of the District's safety program.

Other References

More information is contained in the MD&A and in the Notes to the Basic Financial Statements found in the Financial Section of the report.

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board for their continued support in planning and implementation of the District's fiscal policies.

Respectfully submitted,



Clarence Mansell Jr.
General Manager

Our Mission Statement

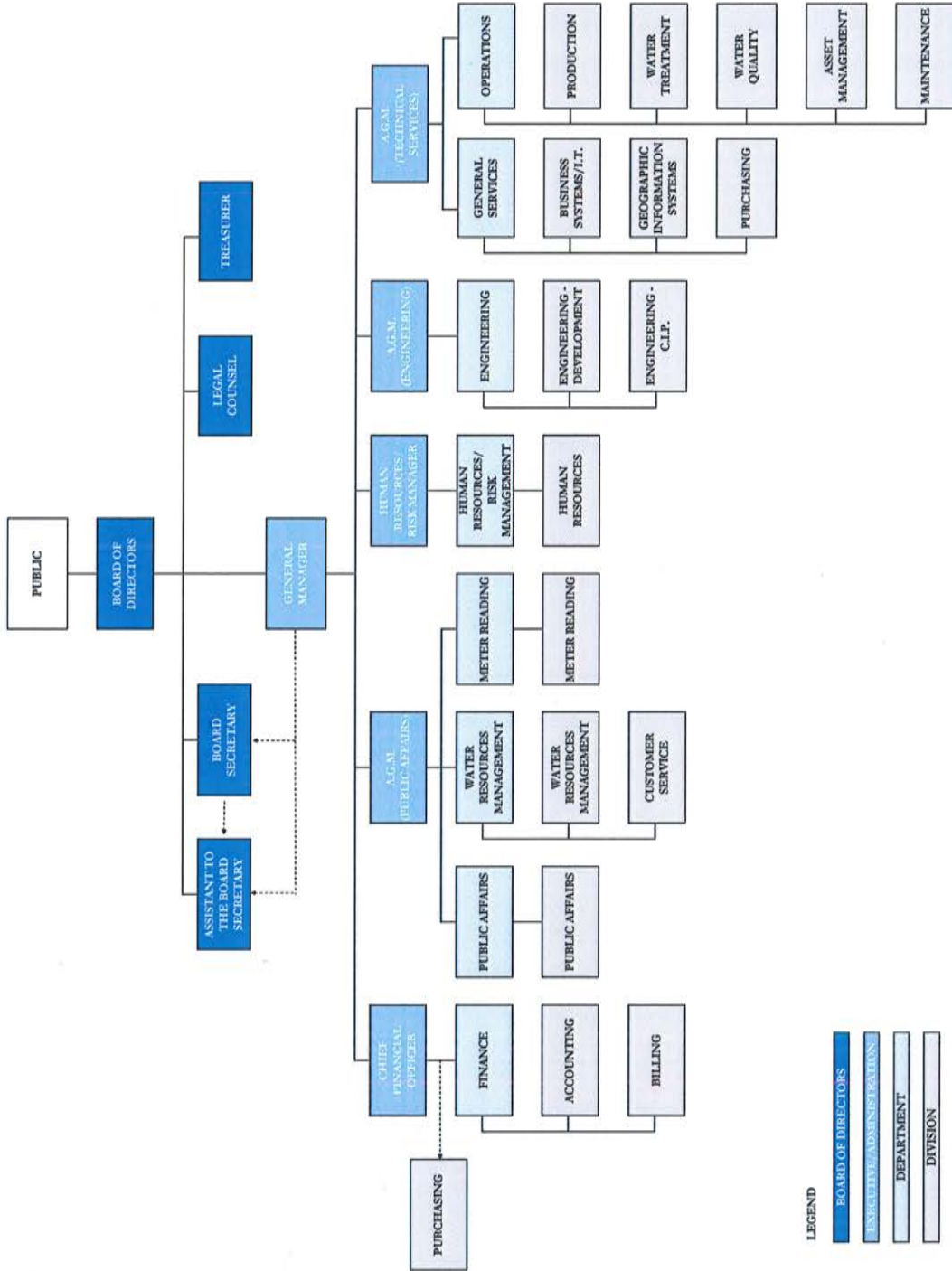
“To provide a reliable, safe drinking water supply to meet our customers’ present and future needs at a reasonable cost and to promote water-use efficiency and conservation”

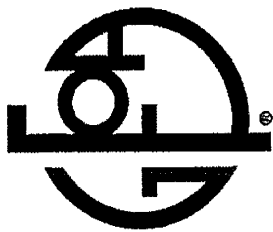
Elected Board of Directors as of June 30, 2019

<u>Name</u>	<u>Title</u>	<u>Current Term</u>
Dr. Clifford O. Young, Sr.	President	11/17 - 11/21
Greg Young	Vice President	11/15 - 11/19
Don Olinger	Director	11/15 - 11/19
Dr. Michael Taylor	Director	11/17 - 11/21
Kyle Crowther	Director	11/17 - 11/19

**West Valley Water District
Clarence Mansell, General Manager
855 W. Baseline Road
Rialto, California 92376
(909) 875-1804
www.wvwd.org**

**WEST VALLEY WATER DISTRICT
FISCAL YEAR 2018-2019 MID YEAR BUDGET
ORGANIZATIONAL STRUCTURE**





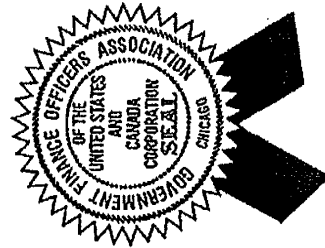
The Government Finance Officers Association
of the United States and Canada

presents this

AWARD OF FINANCIAL REPORTING ACHIEVEMENT

to

Accounting Department
West Valley Water District, California



The award of Financial Reporting Achievement is presented by the Government Finance Officers Association to the individual(s) designated as instrumental in their government unit achieving a Certificate of Achievement for Excellence in Financial Reporting. A Certificate of Achievement is presented to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.

Executive Director

Christopher P. Morill

Date August 1, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the West Valley Water District
Rialto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the West Valley Water District (the "District") as of June 30, 2019 and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2019, and the respective 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.

To the Board of Directors
of the West Valley Water District
Page 2

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Contributions - Pensions, the Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios, and the Schedules of Contributions – Other Postemployment Benefits on pages 3 through 8 and 47 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section and the Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

The PwC Group, LLP

Santa Ana, California
January 20, 2020

**West Valley Water District
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2019**

The management of the West Valley Water District (District) presents the District's financial statements with a narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the audited financial statements which follow this section.

Financial Highlights

- In 2019, the District's net position increased approximately \$15.8 million, from \$125.7 million to \$141.5 million or 12.6%.
- In 2019, the District's operating revenues decreased by (.66%), or \$187,207 primarily to a decreased in water usage.
- In 2019, the District's operating expenses increased 5.93%, or \$1,657,533, primarily due to an increase in source of supply of \$768,093, pumping of \$122,943, customer accounts of \$424,772, public affairs of \$240,045, and other general and administrative expense of \$142,152.
- In 2019, the Districts non-operating revenues increased by 160.52%, or \$4,839,201. Primarily due to Interest and Investment Earnings of \$1,427,610 and Other non-operating revenues of \$2,995,042.
- In 2019, the Districts non-operating expenses decreased by (71.93%) or \$2,299,373. Primarily due to water rate (one time) rebate that was incurred in 2018.
- In 2019, the District had net income before capital contributions of \$5,681,196.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the District's financial statements. The District's financial statements comprise two components: 1) fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, noncapital financing activities, capital and related financing activities and investing activities. In addition, the statement provides information about significant non-cash investing, capital and financing activities.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

West Valley Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2019

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$141.5 million as of June 30, 2019.

The largest portion of the District's net position during June 30, 2019 (71%), reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Condensed Statement of Net Position

	2019	2018	Change \$	Change %
Assets				
Current assets	\$ 67,084,478	\$ 54,694,499	\$ 12,389,979	22.65%
Noncurrent assets	7,443,368	7,805,979	(362,611)	-4.65%
Capital assets	125,693,015	117,609,581	8,083,434	6.87%
Total assets	200,220,861	180,110,059	20,110,802	11.17%
Deferred outflows of resources	5,412,906	3,899,998	1,512,908	38.79%
Liabilities:				
Current liabilities	9,721,627	6,956,234	2,765,393	39.75%
Noncurrent liabilities	48,228,234	44,330,117	3,898,117	8.79%
Total liabilities	57,949,861	51,286,351	6,663,510	12.99%
Deferred inflows of resources	6,179,207	7,020,730	(841,523)	-11.99%
Net position:				
Net investment in capital assets	100,736,605	95,204,664	5,531,941	5.81%
Restricted	10,699,965	7,875,322	2,824,643	35.87%
Unrestricted	30,068,129	22,622,990	7,445,139	32.91%
Total net position	\$ 141,504,699	\$ 125,702,976	\$ 15,801,723	12.57%

As of June 30, 2019, and 2018, the District reports a positive balance in its unrestricted net position of \$30,068,129 and \$22,622,990, respectively.

West Valley Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2019

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2019	2018	Change \$	Change %
Operating revenues	\$ 28,356,765	\$ 28,543,972	\$ (187,207)	-0.66%
Operating expenses	(29,632,239)	(27,974,706)	(1,657,533)	5.93%
Operating income (loss)	(1,275,474)	569,266	(1,844,740)	-324.06%
Nonoperating revenues (expenses)	6,956,670	(75,752)	7,032,422	-9283.48%
Income before capital contributions	5,681,196	493,514	5,187,682	1051.17%
Capital contributions	10,120,527	16,643,552	(6,523,025)	-39.19%
Changes in net position	15,801,723	17,137,066	(1,335,343)	-7.79%
Net position:				
Beginning of year	125,702,976	108,565,910	17,137,066	15.78%
End of year	<u>\$ 141,504,699</u>	<u>\$ 125,702,976</u>	<u>\$ 15,801,723</u>	<u>12.57%</u>

The statement of revenues, expenses, and changes of net position shows how the District's net position changed during the years. In the case of the District, the net position increased by \$15,801,723 and \$17,137,066 during the years ended June 30, 2019 and 2018, respectively. Property contributions and capacity charge revenues from new development received were \$10,120,527 and \$16,643,552 during the years ended June 30, 2019 and 2018, respectively.

Total District Revenues

	2019	2018	Change \$	Change %
Operating Revenues:				
Water consumption sales	\$ 17,163,673	\$ 17,370,508	\$ (206,835)	-1.19%
Water service charges	7,350,127	7,201,939	148,188	2.06%
Other operating revenue	3,842,965	3,971,525	(128,560)	-3.24%
Total operating revenues	28,356,765	28,543,972	(187,207)	-0.66%
Nonoperating Revenues:				
Property taxes	2,305,151	2,023,173	281,978	13.94%
Grants and reimbursements	703,949	554,897	149,052	26.86%
Interest and investment earnings	1,795,521	367,911	1,427,610	388.03%
Rental revenue	33,860	32,941	919	2.79%
Gain on sales of capital assets	-	15,400	(15,400)	-100.00%
Other non-operating revenues	3,015,464	20,422	2,995,042	14665.76%
Total nonoperating revenues	7,853,945	3,014,744	4,839,201	160.52%
Total revenues	<u>\$ 36,210,710</u>	<u>\$ 31,558,716</u>	<u>\$ 4,651,994</u>	<u>14.74%</u>

West Valley Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2019

The District's total revenues increased \$4,651,994 during the fiscal year ended June 30, 2019. The increase in revenues due to an increase in investment earnings of \$1,427,610 from prior year. In addition, the District received a settlement of about \$3 million.

Total District Expenses				
	2019	2018	Change \$	Change %
Operating Expenses:				
Source of supply	\$ 1,740,717	\$ 972,624	\$ 768,093	78.97%
Pumping	3,189,444	3,066,501	122,943	4.01%
Water treatment	4,101,693	4,110,055	(8,362)	-0.20%
Transmission and distribution	1,966,357	2,074,410	(108,053)	-5.21%
Customer accounts	2,456,429	2,031,657	424,772	20.91%
Public affairs	1,520,168	1,280,123	240,045	18.75%
General and administrative	8,313,067	8,170,915	142,152	1.74%
Depreciation expense	6,022,835	5,946,892	75,943	1.28%
Amortization of water participation rights	321,529	321,529	-	0.00%
Total operating expenses	29,632,239	27,974,706	1,657,533	5.93%
Nonoperating Expenses:				
Interest expenses	897,275	879,953	17,322	1.97%
Water rate rebate	-	2,263,619	(2,263,619)	-100.00%
Changes in contingent liability	-	53,076	(53,076)	-100.00%
Total nonoperating expenses	897,275	3,196,648	(2,299,373)	-71.93%
Total expenses	\$ 30,529,514	\$ 31,171,354	\$ (641,840)	-2.06%

The District's total expenses decreased \$641,840 during the fiscal year ended June 30, 2019. For 2019, the District incurred more expense for source of supply due to increased water purchases. However, the District experienced higher cost in pumping and water treatment; increased pumping from our own wells and Fixed Bed Reactor (FBR) plant operations increased electrical cost significantly. Other significant non-operating decrease resulted from a Board approved rebate to customers in the amount of \$2,263,619 during 2018. Additional customer rebates are not anticipated at this time. For 2019, the District also incurred higher general and administrative cost.

West Valley Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2019

Capital Asset Administration

The District's capital assets (net of accumulated depreciation) as of June 30, 2019 and 2018 were in the amounts of \$125,693,015, and \$117,609,581, respectively. This includes land and land rights, transmission and distribution systems, wells, tanks, reservoirs, pumps, building and structures, equipment, vehicles and construction-in-process. In 2019, various capital projects were finalized and added to capital assets. See note 3 for further information.

	June 30, 2019	June 30, 2018	Changes \$	Changes %
Non-depreciable assets:				
Land and land rights	\$ 2,212,967	\$ 2,212,967	\$ -	0.00%
Water rights	404,949	404,949	-	0.00%
Construction-in-process	8,342,042	4,343,489	3,998,553	92.06%
Total non-depreciable assets	<u>10,959,958</u>	<u>6,961,405</u>	<u>3,998,553</u>	<u>57.44%</u>
Depreciable assets:				
Source of supply plant	6,025,030	5,863,657	161,373	2.75%
Pumping plant	10,918,047	10,823,375	94,672	0.87%
Bio-remediation plant	24,907,020	24,907,020	-	0.00%
Water treatment plant	35,708,659	32,228,636	3,480,023	10.80%
Transmission and distribution plant	117,270,985	111,212,275	6,058,710	5.45%
General plant and equipment	13,487,000	13,174,062	312,938	2.38%
Total depreciable assets	<u>208,316,741</u>	<u>198,209,025</u>	<u>10,107,716</u>	<u>5.10%</u>
Less accumulated depreciation:				
Accumulated depreciation	(93,583,684)	(87,560,849)	(6,022,835)	6.88%
Total depreciable assets, net	<u>114,733,057</u>	<u>110,648,176</u>	<u>4,084,881</u>	<u>3.69%</u>
Total capital assets, net	<u>\$ 125,693,015</u>	<u>\$ 117,609,581</u>	<u>\$ 8,083,434</u>	<u>6.87%</u>

Long-Term Debt Administration

At the end of June 30, 2019 and 2018, the District had total long-term debt of \$32,221,890, and \$29,991,926, respectively. In 2019, long-term debt increased by \$2,229,964, due to issuance of the debt for Hydroelectric Plant.

	June 30, 2019	June 30, 2018	Change \$	Change %
Water Revenue Refunding				
Bonds, Series 2016A	\$ 21,040,000	\$ 21,440,000	\$ (400,000)	-1.87%
Add: Unamortized Premium	1,116,146	1,156,763	(40,617)	-3.51%
Total bond payable	<u>22,156,146</u>	<u>22,596,763</u>	<u>(440,617)</u>	<u>-1.95%</u>
Hydroelectric Plant	2,979,051	-	2,979,051	N/A
Water Participation Rights				
Contract payable	7,086,693	7,395,163	(308,470)	-4.17%
Total long-term debt	<u>\$ 32,221,890</u>	<u>\$ 29,991,926</u>	<u>\$ 2,229,964</u>	<u>7.44%</u>

Additional information on the District's long-term debt can be found in note 6 of this report.

West Valley Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Year Ended June 30, 2019

Economic Factors and Next Year's Budgets and Rates

Increased construction in the geographical service area of the district will more than likely lead to increased water sales. It is expected to have a positive effect on the District's financial position. Management is unaware of any conditions that would have a significant negative effect on our profitability or operating results in future periods.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Chief Financial Officer at 855 W. Baseline Road, Rialto, CA 92376, by mail at P.O. Box 920, Rialto, CA 92377 by phone (909) 820-3706.

BASIC FINANCIAL STATEMENTS

West Valley Water District
Statement of Net Position
June 30, 2019

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 7,058,473
Investments (Note 2)	54,610,047
Accrued interest receivable	101,555
Accounts receivable – water sales and services, net	3,192,453
Accounts receivable – redevelopment pass-through	41,082
Grant reimbursement receivable	284,313
Accounts receivable – other	96,860
Property taxes receivable	9,814
Due from other governments	191,296
Materials and supplies inventory	287,398
Prepaid water	782,763
Prepaid items	428,424
	<u>67,084,478</u>

Total current assets

Noncurrent assets:

Accounts receivable - redevelopment pass-through	369,734
Water participation rights, net (Note 4)	7,073,634
Capital assets (Note 3):	
Nondepreciable	10,959,958
Depreciable, net of accumulated depreciation	114,733,057
Capital assets, net	<u>125,693,015</u>
Total noncurrent assets	<u>133,136,383</u>
Total assets	<u>200,220,861</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources:

Deferred outflows of resources related to pensions (Note 7)	2,192,180
Deferred outflows of resources related to OPEB (Note 8)	3,028,880
Deferred amount on refunding at debt	191,846
	<u>5,412,906</u>

Total deferred outflows of resources

West Valley Water District
Statement of Net Position (Continued)
June 30, 2019

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	4,070,547
Accrued salaries and related payables	388,546
Accrued interest payable	225,230
Pass-through utility user taxes payable	121,009
Customer deposits	1,940,516
Construction advances and deposits	1,495,759
Long-term liabilities – due within one year:	
Compensated absences (Note 5)	417,391
Contract payable (Note 6)	652,629
Bonds payable (Note 6)	410,000
	<u>9,721,627</u>

Total current liabilities

Noncurrent liabilities:

Unearned revenue – developers	601,019
Long-term liabilities – due in more than one year:	
Compensated absences (Note 5)	341,502
Contingent liability (Note 10)	438,970
Contract payable (Note 6)	9,413,115
Bonds payable (Note 6)	21,746,146
Net pension liability (Note 7)	5,714,823
Net other post-employment benefits liability (Note 8)	9,972,659

Total noncurrent liabilities

48,228,234

Total liabilities

57,949,861

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources:

Deferred inflows of resources related to pensions (Note 7)	568,947
Deferred inflows of resources related to OPEB (Note 8)	5,610,260
	<u>6,179,207</u>

Total deferred inflows of resources

NET POSITION

Net position:

Net investment in capital assets (Note 9)	100,736,605
Restricted for:	
Capital projects	10,699,965
Unrestricted	30,068,129
	<u>\$ 141,504,699</u>

Total net position

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West Valley Water District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2019

OPERATING REVENUES:	
Water consumption sales	\$ 17,163,673
Water service charges	7,350,127
Other operating revenue	3,842,965
Water rate rebate	
Total operating revenues	28,356,765
 OPERATING EXPENSES:	
Source of supply	1,740,717
Pumping	3,189,444
Water treatment	4,101,693
Transmission and distribution	1,966,357
Customer accounts	2,456,429
Public affairs	1,520,168
General and administrative	8,313,067
Depreciation expense	6,022,835
Amortization of water participation rights	321,529
Total operating expenses	29,632,239
 OPERATING (LOSS)	 (1,275,474)
 NONOPERATING REVENUES (EXPENSES):	
Property taxes	2,305,151
Grants and reimbursements	703,949
Interest and investment earnings	1,795,521
Rental revenue	33,860
Other non-operating revenues	3,015,464
Interest expense	(897,275)
Total nonoperating revenues (expenses)	6,956,670
Income before capital contributions	5,681,196
 CAPITAL CONTRIBUTIONS:	
Developer contributions	4,148,149
Capacity charges	5,972,378
Total capital contributions	10,120,527
CHANGES IN NET POSITION	15,801,723
 NET POSITION:	
Beginning of year	125,702,976
End of year	\$ 141,504,699

West Valley Water District
Statement of Cash Flows
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from customers for water sales and services	\$ 24,998,438
Cash rebated to customers	(406)
Cash paid to employees for salaries and benefits	(8,717,927)
Cash paid to vendors and suppliers for materials and services	(13,436,946)
Cash received from others	3,925,836
Net cash provided by operating activities	<u>6,768,995</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes and fee collected	2,305,151
Receipts from other revenues	3,962,377
Net cash provided by noncapital financing activities	<u>6,267,528</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(14,301,792)
Proceeds from developer contributions	4,148,149
Proceeds from capacity charges	5,972,378
Proceeds from sale of capital assets	195,523
Proceed from issuance of long-term debt	3,310,150
Principal paid on long-term debt	(1,039,570)
Interest paid on long term debt	(939,886)
Net cash (used in) capital and related financing activities	<u>(2,655,048)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(5,527,316)
Interest received	1,129,943
Net cash (used in) investing activities	<u>(4,397,373)</u>
Net change in cash and cash equivalents	5,984,102
CASH AND CASH EQUIVALENTS:	
Beginning of year	<u>1,074,371</u>
End of year	<u>\$ 7,058,473</u>

West Valley Water District
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2019

**RECONCILIATION OF OPERATING
(LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:**

Operating (loss)	\$	(1,275,474)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense		6,022,835
Amortization of water participation rights		321,529
(Increase) decrease in:		
Accounts receivable – water sales and services, net		(50,443)
Grant reimbursement receivable		21,879
Accounts receivable – other		80,971
Property taxes receivable		10,290
Due from other government		82,871
Materials and supplies inventory		(26,853)
Prepaid water		(368,949)
Prepaid items		37,252
Accounts receivable - redevelopment pass-through		41,082
Deferred outflows of resources - pensions		365,747
Deferred outflows of resources - OPEB		(1,878,655)
Increase (decrease) in:		
Accounts payable and accrued expenses		1,880,104
Accrued salaries and related payables		54,254
Pass-through utility user taxes payable		16,310
Customer deposits		191,561
Changes in Net Pension Liability		(139,795)
Change in Net OPEB Liability		1,862,434
Construction advances and deposits		189,298
Compensated absences		172,270
Deferred inflows of resources - pensions		(61,643)
Deferred inflows of resources - OPEB		(779,880)
Total adjustments		8,044,469
Net cash provided by operating activities	\$	6,768,995

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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West Valley Water District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2019

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Organization and Operations of the Reporting Entity

Established on January 8, 1952, the West Valley Water District (the “District”) is located in Southwestern San Bernardino County with a small area of Northwestern Riverside County. The District’s service area is approximately 32 square miles. The District uses 376 miles of water mains to provide water to approximately 21,000 customers. The District is governed by a five-member Board of Directors who serve overlapping four-year terms.

The West End Water Development, Treatment and Public Affairs Joint Powers Authority (the “Authority”) was formed on April 7, 1989, pursuant to the provisions of Article I, Chapter S, Division 7, Title 1 of the California Government Code. The Authority is deemed to be a component unit of the West Valley Water District, City of Rialto and the Municipal Water Department of the City of San Bernardino. The District’s portion of the Authority has been included in these financial statements using the blended method of reporting. The Authority has had no activity in the past 10 years and reports no assets or liabilities.

The criteria used in determining the scope of the financial reporting entity is based on generally accepted accounting principles. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization’s governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Basis of Presentation

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

Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding.

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

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses, not included in the above categories, are reported as non-operating revenues and expenses.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Measurement Focus (Continued)

The Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

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

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

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value.

Investments

Investments are stated at fair value. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 — Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 — Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 — Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Restricted Assets

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statement of net position. Revenue bond reserve funds and construction funds set aside from bond proceeds are restricted for future debt service payments and construction projects. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

Materials and Supplies Inventory

Materials and supplies inventory consist primarily of water meters, pipe and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

Prepaid Items

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Water Stock – Fontana Union Water Company

Over the years, the District has acquired stock in the Fontana Union Water Company in order to obtain water rights within the Company's service area. The stock is presented with investments in the accompanying statement of net position, and is reported at acquisition cost, which approximates fair value.

Accounts Receivable – Redevelopment Pass-Through

The District has a tax pass-through agreement with the City of Rialto; whereby, the County of San Bernardino auditor-controller is to pay a portion of the City's incremental tax receipts directly to the District for water-related improvements within the Agua Mansa redevelopment area. Over the past several years, the District has received an annual payment of the revenue that it is entitled to and it is anticipated that the District will continue to collect annual payments through fiscal year 2029.

Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Source of supply plant	20 years
Pumping plant	10 - 20 years
Water treatment plant	10 years
Transmission and distribution plant	15 - 60 years
General plant	5 - 20 years

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated.

Construction Advances and Deposits

Construction advances represent deposits received in aid of construction, which are refundable if the applicable construction does not take place. Construction advances are transferred to contributed capital when the applicable construction project is completed.

Defined Benefit Pension Plans

In accordance with GASB 68, there is a requirement that the measurement date not to exceed one year to the prior financial reporting date. Since this is an interim financial statement, the measurement date is greater than one year. Accordingly, the audit report is qualified.

For purposes of measuring the net pension liability, and deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net pension of the District's pension plans and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by plans (Note 7). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

<u>CalPERS</u>	<u>June 30, 2019</u>
Valuation date	June 30, 2017
Measurement date	June 30, 2018
Measurement period	July 1, 2017 to June 30, 2018

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

Other Postemployment Benefits ("OPEB")

In accordance with GASB 75, there is a requirement that the measurement date not to exceed one year to the prior financial reporting date. Since this is an interim financial statement, the measurement date is greater than one year. Accordingly, the audit report is qualified.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan (Note 8). For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments, which are reported at amortized cost.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

The following timeframes are used for pension reporting:

<u>OPEB</u>	<u>June 30, 2019</u>
Valuation date	June 30, 2018
Measurement date	June 30, 2018
Measurement period	July 1, 2017 to June 30, 2018

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of debt that are attributable to the acquisition, construction or improvement of those assets.

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

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

Water Sales and Sewer Services

Water sales and sewer services are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment. Any prepayments received by the District are reported as unearned revenue until construction of the related project has commenced and the District is reasonably certain they will be completed. Upon completion, the applicable amounts are recognized as capital contributions.

Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Use of Estimates

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

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 2 – Cash and Investments

Cash and investments as of June 30, 2019 were classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 7,058,473
Investments	<u>54,610,047</u>
Total cash and investments	<u>\$ 61,668,520</u>

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

Cash on hand	\$ 4,300
Deposits held with financial institutions	7,054,173
Investments	<u>54,610,047</u>
Total cash and investments	<u>\$ 61,668,520</u>

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Entity Securities ¹	3 years	None	None
Certificate of Deposit ²	5 years	None	50%
Money Market Mutual Funds	N/A	20%	50%
Collateralized Bank Deposits ³	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
CalTrust	2 years	None	None
Municipal Securities	5 years	20%	None
Banker's Acceptances	180 days	25%	50%
Commercial Paper	270 days	25%	10%
Repurchase Agreement	90 days	10%	50%
Medium-Term Notes	5 years	30%	50%
Local Government Investment Pools (LGIP)	5 years	50%	50%
Supranational	5 years	30%	10%

¹ Purchase of callable Federal Agency Obligations are limited to a maximum 30% of portfolio.

² Only a maximum 30% of surplus funds can be invested in Certificates of Deposit.

³ Only a maximum of 20% the portfolio may be invested in Time Certificate of Deposits (TCDs). The maturity of TCDs may not exceed 4 years.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 2 – Cash and Investments (Continued)

Fair Value Measurements

At June 30, 2019, investments are reported at fair value. The following table presents the fair value measurement of investments on a recurring basis and the levels within GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2019:

Investment Type	Measurement Input		
	Significant Observable Inputs (Level 2)	Uncategorized	Total
	CalTrust	\$ -	\$ 25,818,494
U.S. Agency Obligations	2,752,598	-	2,752,598
U.S. Treasury Obligations	6,022,305	-	6,022,305
U.S. Corporate	3,233,598	-	3,233,598
Supranational	498,537	-	498,537
Local Agency Investment Fund (LAIF)	-	16,214,350	16,214,350
Money Market Mutual Funds	-	70,165	70,165
Total	<u>\$ 12,507,038</u>	<u>\$ 42,103,009</u>	<u>\$ 54,610,047</u>

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the table on the following page that shows the distribution of the District's investments by maturity.

The District's investments as of June 30, 2019 were as follows:

Investment Type	Investment Maturities (in Years)			Fair Value Total
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	
CalTrust	\$ 15,337,183	\$ 10,481,311	\$ -	\$ 25,818,494
U.S. Agency Obligations	1,498,574	2,013,262	2,510,468	6,022,304
U.S. Treasury Obligations	747,325	996,162	1,009,111	2,752,598
U.S. Corporate	149,954	1,507,867	1,575,777	3,233,598
Supranational	-	248,907	249,631	498,538
Local Agency Investment Fund (LAIF)	16,214,350	-	-	16,214,350
Money Market Mutual Funds	70,165	-	-	70,165
Total	<u>\$ 34,017,551</u>	<u>\$ 15,247,509</u>	<u>\$ 5,344,987</u>	<u>\$ 54,610,047</u>

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 2 – Cash and Investments (Continued)

Custodial Credit Risk

The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the District's policy to limit its investments in these investment types to the top rating issued by NRSROs, including raters Standard and Poor's, and Moody's Investors Service. Presented in the following table is the Standard and Poor's credit ratings for the Districts investments as of June 30, 2019.

Investment Type	Total As of June 30, 2019	Minimum Legal Rating	A or Higher	Unrated
CalTrust	\$ 25,818,494	N/A	\$ -	\$ 25,818,494
U.S. Agency Obligations	6,022,304	N/A	6,022,304	-
U.S. Treasury Obligations	2,752,598	N/A	2,752,598	-
U.S. Corporate	3,233,598	A	3,233,598	-
Supranational	498,538	AA	498,538	-
Local Agency Investment Fund (LAIF)	16,214,350	N/A	-	16,214,350
Money Market Mutual Funds	70,165	AAA	70,165	-
Total	<u>\$ 54,610,047</u>		<u>\$ 12,577,203</u>	<u>\$ 42,032,844</u>

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments as of June 30, 2019.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 2 – Cash and Investments (Continued)

Local Agency Investment Funds

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District's investment with LAIF at June 30, 2019, included a portion of the pool funds investing in Structured Notes and Asset-Backed Securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities: generally, mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

The District had \$16,214,350 invested in LAIF, which had invested 1.77% of the pooled investment funds in structured notes and medium-term asset-backed securities as of June 30, 2019, respectively. The LAIF fair value factor of 1.00171179 was used to calculate the fair value of the investments in LAIF as of June 30, 2019.

Investment in CalTRUST

The Investment Trust of California, doing business as CalTRUST, is a California joint powers authority which provides California Public Agencies with investment management services for surplus funds to consolidate investment activities of its Participants and thereby reduces duplication, achieves economies of scale and carries out coherent and consolidated investment strategies through the issuance of shares of beneficial interest in investments purchased by CalTRUST. CalTRUST currently offers three accounts or series as a means for Public Agencies to invest their funds. The District participates in the CalTRUST Short-Term Fund Series and CalTRUST Medium-Term Fund Series.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 3 – Capital Assets

Changes in capital assets for the year ended June 30, 2019, were as follows:

	Balance July 1, 2018	Additions	Deletions	Transfers	Balance June 30, 2019
Non-depreciable assets:					
Land and land rights	\$ 2,212,967	\$ -	\$ -	\$ -	\$ 2,212,967
Water rights	404,949	-	-	-	404,949
Construction-in-process	4,343,489	6,313,768	(195,523)	(2,119,692)	8,342,042
Total non-depreciable assets	<u>6,961,405</u>	<u>6,313,768</u>	<u>(195,523)</u>	<u>(2,119,692)</u>	<u>10,959,958</u>
Depreciable assets:					
Source of supply plant	5,863,657	161,373	-	-	6,025,030
Pumping plant	10,823,375	-	-	94,672	10,918,047
Bio-remediation plant	24,907,020	-	-	-	24,907,020
Water treatment plant	32,228,636	3,401,702	-	78,321	35,708,659
Transmission and distribution plant	111,212,275	4,149,797	-	1,908,913	117,270,985
General plant and equipment	13,174,062	275,152	-	37,786	13,487,000
Total depreciable assets	<u>198,209,025</u>	<u>7,988,024</u>	<u>-</u>	<u>2,119,692</u>	<u>208,316,741</u>
Less accumulated depreciation:					
Source of supply plant	(3,828,182)	(277,473)	-	-	(4,105,655)
Pumping plant	(7,263,686)	(473,432)	-	-	(7,737,118)
Bio-remediation plant	(3,720,641)	(830,234)	-	-	(4,550,875)
Water treatment plant	(27,044,198)	(970,933)	-	-	(28,015,131)
Transmission and distribution plant	(39,510,971)	(2,646,852)	-	-	(42,157,823)
General plant and equipment	(6,193,171)	(823,911)	-	-	(7,017,082)
Total accumulated depreciation	<u>(87,560,849)</u>	<u>(6,022,835)</u>	<u>-</u>	<u>-</u>	<u>(93,583,684)</u>
Total depreciable assets, net	<u>110,648,176</u>	<u>1,965,189</u>	<u>-</u>	<u>2,119,692</u>	<u>114,733,057</u>
Total capital assets, net	<u>\$ 117,609,581</u>	<u>\$ 8,278,957</u>	<u>\$ (195,523)</u>	<u>\$ -</u>	<u>\$ 125,693,015</u>

Depreciation expense for the year ended June 30, 2019 was \$6,022,835.

Major capital assets additions during the current year include the upgrades and extensions of the District's transmission and distribution, water treatment plant, general plant and pumping plant. A significant portion of these additions were constructed by the District and/or sub-contractors and transferred out of construction-in-process, upon completion of these various projects.

Construction-In-Process

The construction-in-process balances at June 30, 2019 are as follows:

Fixed Bed Reactor Design	\$ 3,000,000
Zone 4 30' WL in Highland	1,594,121
Zone6 12" Persimmon & Sum	1,374,932
Zone 6-Well 54 Deare Tank	306,390
Various minor district projects	2,066,167
Various other developer projects	432
Total construction-in-process	<u>\$ 8,342,042</u>

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 4 – Water Participation Rights

In 2012, the District acquired water participation rights from the San Bernardino Valley Municipal Water District for \$9,645,865. The District is amortizing the participation rights until January 31, 2041. Changes in water participation rights for the year ended June 30, 2019, were as follows:

Description	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Water participation rights	\$ 9,645,865	\$ -	\$ -	\$ 9,645,865
Less: accumulated amortization	(2,250,702)	(321,529)	-	(2,572,231)
Water participation rights, net	<u>\$ 7,395,163</u>	<u>\$ (321,529)</u>	<u>\$ -</u>	<u>\$ 7,073,634</u>

Note 5 – Compensated Absences

Changes to compensated absences for the year ended June 30, 2019 were as follows:

	Balance July 1, 2018	Earned	Taken	Balance June 30, 2019	Current Portion	Non-current Portion
Compensated absences	<u>\$ 586,621</u>	<u>\$ 724,133</u>	<u>\$ (551,861)</u>	<u>\$ 758,893</u>	<u>\$ 417,391</u>	<u>\$ 341,502</u>

Note 6 – Long-Term Debt

Changes in long-term debt for the year ended June 30, 2019 were as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Amount Due Within One Year	Amount Due In More Than One Year
Water Revenue Refunding						
Bonds, Series 2016A	\$ 21,440,000	\$ -	\$ (400,000)	\$ 21,040,000	\$ 410,000	\$ 20,630,000
Add: Unamortized Premium	1,156,763	-	(40,617)	1,116,146	-	1,116,146
Total bond payable	22,596,763	-	(440,617)	22,156,146	410,000	21,746,146
Hydroelectric Plant	-	3,310,151	(331,100)	2,979,051	331,100	2,647,951
Water Participation Rights						
Contract payable	7,395,163	-	(308,470)	7,086,693	321,529	6,765,164
Total long-term debt	<u>\$ 29,991,926</u>	<u>\$ 3,310,151</u>	<u>\$ (1,080,187)</u>	<u>\$ 32,221,890</u>	<u>\$ 1,062,629</u>	<u>\$ 31,159,261</u>

Water Revenue Refunding Bonds Series 2016A

The 2016A Bonds were issued to provide funds, together with certain other moneys: (i) to prepay all amounts payable under the Series 2006D-2 Bonds installment purchase agreement between the District and California Statewide Communities Development Authority; and (ii) pay costs of issuance of the 2016A Bonds. The 2016A Bonds were issued pursuant to an Indenture of Trust, dated December 1, 2016, by and between the District and U.S. Bank National Association. The 2016A Bonds were in the aggregate principal amount of \$22,035,000. The 2016A Bonds were dated as of the date of initial issuance, and will bear interest ranging from 2.00% to 5.00% per annum, payable on April 1 and October 1, commencing April 1, 2017, and ending October 1, 2047. The Series 2016A Bonds are payable solely from the net revenues of the District's water system as defined in the Series 2016A Bond Indenture.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 6 – Long-Term Debt (Continued)

Water Revenue Refunding Bonds Series 2016A (Continued)

The amount outstanding at June 30, 2019 was \$21,040,000. The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	\$ 410,000	\$ 903,450	\$ 1,313,450
2021	415,000	895,250	1,310,250
2022	430,000	882,800	1,312,800
2023	440,000	869,900	1,309,900
2024	455,000	856,700	1,311,700
2025-2029	2,590,000	3,964,500	6,554,500
2030-2034	3,290,000	3,266,400	6,556,400
2035-2039	3,265,000	2,366,750	5,631,750
2040-2044	3,910,000	1,636,200	5,546,200
2045-2047	5,835,000	700,200	6,535,200
Total	<u>\$ 21,040,000</u>	<u>\$ 16,342,150</u>	<u>\$ 37,382,150</u>

Hydroelectric Plant

In December 20, 2016, the District entered into an agreement with San Bernardino Valley Municipal Water District (“Valley District”) to finance and construct Roemer Hydroelectric Station. In the agreement, the Valley District agreed to finance the cost of the project total amounted of \$3,310,151 with the interest that the Valley District shall be revenue neutral in this financing arrangement. Beginning June 2018, the District shall repay the principal of the project funds, together with all interest accruing thereon, annually to the Valley District. As of June 30, 2019, the outstanding balance of the financing was in the amount of \$2,979,051.

Future debt service requirements are as follows:

Year Ending June 30,	Principal
2020	\$ 331,100
2021	331,100
2022	331,100
2023	331,100
2024	331,100
Thereafter	1,323,551
Total	<u>\$ 2,979,051</u>

Water Participation Rights Contract Payable

In 2012, the District acquired water participation rights from the San Bernardino Valley Municipal Water District. These rights entitle the District to purchase water from the Baseline Feeder system. The payment for the rights is calculated at 5,000-acre feet at \$90 per acre foot, per year, payable in monthly installments of \$26,794, until January 31, 2041. The calculated annual amount of \$321,529 is a minimum usage fee which does not actually represent the purchase of any water. Purchased water is billed in addition to the minimum fee.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 6 – Long-Term Debt (Continued)

Water Participation Rights Contract Payable (Continued)

Future debt service requirements are as follows:

Year Ending June 30,	Principal
2020	\$ 321,529
2021	321,529
2022	321,529
2023	321,529
2024-2028	1,607,645
2029-2033	1,607,645
2034-2038	1,607,645
2039-2041	977,642
Total	<u>\$ 7,086,693</u>

Note 7 – Defined Benefit Pension Plans

The following is the summary of net pension liability and related deferred outflows of resources and deferred inflows of resources at June 30, 2019 and pension expense for the year then ended.

Deferred outflows of resources:

Pension contribution made after measurement date	\$ 812,147
Difference between expected and actual experiences	219,267
Difference between projected and actual earnings on pension investments	28,253
Adjustment due to difference in proportion	370,386
Difference between District's contribution and proportionate share of contribution	110,620
Change of assumptions	651,507
Total deferred outflows of resources	<u>\$ 2,192,180</u>

Net pension liability:

Miscellaneous	\$ 5,714,823
Total net pension liability	<u>\$ 5,714,823</u>

Deferred inflows of resources:

Difference between expected and actual experiences	\$ 74,615
Adjustment due to difference in proportion	115,238
Difference between District's contribution and proportionate share of contribution	219,422
Change of assumptions	159,672
Total deferred inflows of resources	<u>\$ 568,947</u>

Pension Expense:

Miscellaneous	\$ 976,651
Total pension expense	<u>\$ 976,651</u>

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 7 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan

Plans Description

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

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A classic CalPERS member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. PEPRA miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 or 12 consecutive months' full-time equivalent monthly pay. Retirement benefits for classic miscellaneous employees are calculated as 2% of the average final 12 months compensation. Retirement benefits for PEPRA miscellaneous employees are calculated as 2% of the average final 36 months compensation.

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

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

	Miscellaneous Plan	
	Classic Tier 1	PEPRA Tier 2
	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-67 & up	52-67 & up
Required employee contribution rates	7.000%	6.250%
Required employer contribution rates	8.921%	6.533%

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 7 – Defined Benefit Pension Plans (Continued)

General Information about the Pension Plan (Continued)

Employees Covered by Benefit Terms

As of June 30, 2017, the valuation date, the following employees were covered by the benefit terms for the Plan:

	Miscellaneous Plan	
	Classic	PEPRA
Active employees	51	26
Transferred and terminated employees	33	1
Retired employees and beneficiaries	37	-
Total	121	27

Contributions

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

For the measurement period ended June 30, 2018, the active employee contribution rate for miscellaneous plan and PEPRA miscellaneous plan is 7.00% and 6.25% of annual pay, respectively, and the employer's contribution rate is 8.921% and 6.533% of annual payroll, respectively.

For the measurement period ended June 30, 2017, the active employee contribution rate for miscellaneous plan and PEPRA miscellaneous plan is 7.00% and 6.25% of annual pay, respectively, and the employer's contribution rate is 8.880% and 6.555% of annual payroll, respectively.

Net Pension Liability

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2017 valuation was rolled forward to determine the June 30, 2018 total pension liability, based on the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

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

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 7 – Defined Benefit Pension Plans (Continued)

Net Pension Liability (Continued)

Change of Assumptions

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate was reduced from 7.65 to 7.15 percent.

Long-term Expected Rate of Return

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

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

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

Asset Class ¹	Assumed Asset Allocation	Real Return Years 1-10 ²	Real Return Years 11+ ³
Global Equity	50%	4.80%	5.98%
Global Fixed Income	28%	1.00%	2.62%
Inflation Sensitive	0%	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Estate	13%	3.75%	4.93%
Liquidity	1%	0.00%	-0.92%

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

²An expected inflation of 2.00% used for this period

³An expected inflation of 2.92% used for this period.

Discount Rate

The discount rate used to measure the 2018 total pension liabilities was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 7 – Defined Benefit Pension Plans (Continued)

Changes in the Net Pension Liability

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

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

	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1%	Current Discount	Discount Rate + 1%
	(6.15%)	Rate (7.15%)	(8.15%)
Miscellaneous Plan	\$ 9,680,015	\$ 5,714,823	\$ 2,441,623

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued CalPERS financial report.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the District's miscellaneous plan's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2019.

	Miscellaneous Plan		
	Total Pension Liability (a)	Increase (Decrease)	
		Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) - (a) - (b)
Balance at June 30, 2017 (Valuation Date)	\$ 27,157,658	\$ 21,303,040	\$ 5,854,618
Balance at June 30, 2018 (Measurement Date)	29,312,907	23,598,084	5,714,823
Net Changes during 2017-2018	2,155,249	2,295,044	(139,795)

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 7 – Defined Benefit Pension Plans (Continued)

Changes in the Net Pension Liability (Continued)

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

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2017). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2018). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2018 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2017-18).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan's share of the actuarial accrued liability. FNP is allocated based on the rate plan's share of market value assets.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense are allocated based on the District's share of contributions made during the measurement period.

The District's proportionate share of the net pension liability for the Plan as of the June 30, 2017, and 2018 measurement dates was as follows:

June 30, 2017	0.0590%
June 30, 2018	0.0593%
Change - Increase (Decrease)	<u>0.0003%</u>

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 7 – Defined Benefit Pension Plans (Continued)

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the measurement periods ended June 30, 2018, the District incurred a pension expense of \$976,651. As of measurement date of June 30, 2018, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

Description	Deferred outflow of Resources	Deferred inflow of Resources
Pension contribution made after measurement date	\$ 812,147	\$ -
Difference between expected and actual experiences	219,267	74,615
Difference between projected and actual earnings on pension investments	28,253	-
Adjustment due to difference in proportion	370,386	115,238
Difference between District's contribution and proportionate share of contribution	110,620	219,422
Change of assumptions	651,507	159,672
Total	<u>\$ 2,192,180</u>	<u>\$ 568,947</u>

The amounts above are net of outflows and inflows recognized in the 2017-2018 measurement period expense.

Deferred outflows of resources related to pensions resulting from District's contributions subsequent to the measurement date in the amount of \$812,147 will be recognized as a reduction of the collective 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 in pension expense as follows:

Year Ended June 30,	Deferred Outflows/ (Inflows) of Resources Resources
2020	\$ 616,221
2021	381,370
2022	(135,104)
2023	(51,401)
Thereafter	-
Total	<u>\$ 811,086</u>

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 8 – Other Postemployment Benefits (“OPEB”)

At June 30, 2019, total OPEB liability and related deferred outflows of resources and deferred inflows of resources are as follow:

Deferred outflows of resources:	
OPEB contribution after measurement date	\$ 953,106
Difference between expected and actual experience	2,053,792
Projected earnings on pension plan investments under/(in excess of) actual earnings	<u>21,982</u>
Total deferred outflows of resources	<u>\$ 3,028,880</u>
Total other postemployment benefit liability	<u>\$ 9,972,659</u>
Deferred inflows of resources:	
Change of assumptions	<u>5,610,260</u>
Total deferred inflows of resources	<u>\$ 5,610,260</u>
OPEB Expense	<u>\$ 2,704,429</u>

General Information about the OPEB Plan

Plan Description

The District pays a portion of the cost of health insurance for retirees (including prescription drug benefits) under any group plan offered by the CalPERS Health Program, subject to certain restrictions as determined by the District. The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District’s CalPERS Health Program, a cost-sharing multiple-employer medical coverage plan. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors.

Eligibility

As of the June 30, 2018, the measurement date, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Active employees	79
Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to, but not yet receiving benefits	<u>-</u>
Total	<u>104</u>

Contributions

The OPEB Plan and its contribution requirements are established by Ordinance and may be amended by Board action to update the original Ordinance. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2019, the District’s cash contributions were \$567,000 in payments to the California Employers’ Retiree Benefit Trust (CERBT) Fund and the estimated implied subsidy was \$386,105 resulting in total payments of \$953,106.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)

Net OPEB Obligation

The District’s Net OPEB Liability was measured as of June 30, 2018 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of June 30, 2018.

Actuarial Assumptions

Actuarial Valuation Date	June 30, 2018
Contribution Policy	District contributes full ADC
Actuarial Assumptions:	
Discount Rate	6.75% at 6/30/18, net of investment expenses
Expected Long-Term Rate on Return on Investments	6.75% at 6/30/18, net of investment expenses
	Expected District contributions projected to keep sufficient plan assets to pay all benefits from trust
General Inflation	2.75% per annum
Mortality, Retirement, Disability, Termination	CalPERS 1997-2015 experience study
Mortality Improvement	Mortality projected fully generational with Scale MP-2018
Salary Increases	3% aggregate; merit CalPERS 1997-2015 experience study
Medical Trend	Non-Medicare rate of 7.5% and Medicare rate of 6.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076.
Dental and Vision Trend	3.00%
Healthcare Participation for Future Retirees	DOH < 7/1/2006: 95% DOH ≥ 7/1/2006: 50% with 5 years of service, increasing to 95% with 20 years of service
Medicare Eligibility	DOH < 3/31/1986: 2/3 eligible DOH > 3/31/1986: 100% eligible
PPACA Excise Tax	2% of cash benefit for PPACA High Cost Plan Excise Tax

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Rate of Return
Global Equity	57.00%	4.82%
Fixed Income	27.00%	1.47%
TIPS	5.00%	1.29%
Commodities	3.00%	0.84%
REITS	8.00%	3.76%
Total	100.00%	

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)

Net OPEB Obligation (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75 percent, based on CERBT Strategy 1 investment policy. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Change in Net OPEB Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2018 (June 30, 2017 Measurement Date)	\$ 8,110,225	\$ -	\$ 8,110,225
Changes recognized for the measurement period:			
Service cost	236,285	-	236,285
Interest on the total OPEB liability	552,581	-	552,581
Actual vs. expected experience	2,279,483	-	2,279,483
Changes of assumption	(43,695)	-	(43,695)
Contributions - employer	-	1,150,225	(1,150,225)
Net investment income	-	12,291	(12,291)
Benefits payments	(320,225)	(320,225)	-
	-	(296)	296
Net Changes during July 1, 2018 to June 30, 2019	2,704,429	841,995	1,862,434
Balance at June 30, 2019 (June 30, 2018 Measurement Date)	\$ 10,814,654	\$ 841,995	\$ 9,972,659

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

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

Plan's Net OPEB Liability (Asset)		
Discount Rate - 1% (5.75%)	Current Discount Rate (6.75%)	Discount Rate + 1% (7.75%)
\$ 11,684,576	\$ 9,972,659	\$ 8,586,144

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)

Change in Net OPEB Liability (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

Plan's Net OPEB Liability (Asset)		
1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 8,436,099	\$ 9,972,659	\$ 11,921,917

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

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of \$175,005. As of fiscal year ended June 30, 2019, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred outflows of Resources	Deferred inflows of Resources
Changes of assumptions	\$ -	\$ 5,610,260
Net difference between projected and actual earnings on plan investments	21,982	-
Difference between expected and actual experience	2,053,792	-
Employer contributions made subsequent to the measurement date	953,106	-
Total	\$ 3,028,880	\$ 5,610,260

The \$953,106 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Amount reported as deferred outflows of resources related to OPEB will be recognized as future OPEB expense as follows:

Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2020	\$ (592,389)
2021	(592,389)
2022	(592,389)
2023	(592,389)
2024	(592,389)
Thereafter	(572,541)
	\$ (3,534,486)

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 9 – Net Investment in Capital Assets

Net investment in capital assets as of June 30, 2019 was as follows:

Description	
Capital assets, net	\$ 125,693,015
Water participation rights	7,073,634
Loss on debt refunding	191,846
Capital related debt:	
Bonds payable - current	(410,000)
Bonds payable - noncurrent	(20,630,000)
Bond premium	(1,116,146)
Contracts payable - current	(652,629)
Contracts payable - noncurrent	(9,413,115)
Net investment in capital assets	\$ 100,736,605

Note 10 – Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District has estimated an aggregate contingent liability related to various claims and litigations in the amount of \$438,970. The contingent liability is periodically adjusted as additional information becomes available affecting management's estimate. Actual claims and settlements paid will likely differ from this amount.

West Valley Water District and other local water agencies joined in a lawsuit against Fontana Water Company for over pumping the local ground water basins. The lawsuit resulted in an awarded of money to West Valley Water District and the other plaintiffs

Note 11 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. As of June 30, 2019, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$5,000,000, combined single limit at \$5,000,000 per occurrence. The JPIA purchases additional excess coverage layers: \$60 million per occurrence for general, auto and public officials' liability, which increases the limits on the insurance coverage noted above.

West Valley Water District
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2019

Note 11 – Risk Management (Continued)

In addition to the above, the District also has the following insurance coverage:

- Public employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$500 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work-related injuries/illnesses covered by California law. Coverage is through the Special Districts Risk Management Authority.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the last three years. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2019, 2018 and 2017, other than an estimated contingent liability for various litigation, as described in Note 10.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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West Valley Water District
Required Supplementary Information (Unaudited)
Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios
As of June 30, 2019

Last Ten Fiscal Years¹

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

Measurement period ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
District's Proportion of the Net Pension Liability	0.1516%	0.1485%	0.1447%	0.1608%	0.1773%
District's Proportionate Share of the Net Pension Liability/(Asset)	<u>\$ 5,714,823</u>	<u>\$ 5,854,618</u>	<u>\$ 5,025,330</u>	<u>\$ 4,411,991</u>	<u>\$ 4,381,344</u>
District's Covered Payroll	<u>\$ 5,589,317</u>	<u>\$ 5,443,095</u>	<u>\$ 4,320,078</u>	<u>\$ 3,985,522</u>	<u>\$ 3,776,382</u>
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	<u>102.25%</u>	<u>107.56%</u>	<u>116.32%</u>	<u>110.70%</u>	<u>116.02%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>80.51%</u>	<u>78.53%</u>	<u>78.61%</u>	<u>78.40%</u>	<u>79.82%</u>

¹ Historical information is presented for measurement periods for which GASB 68 is applicable. Additional years' information will be displayed as it becomes available.

West Valley Water District
Required Supplementary Information (Unaudited)
Schedule of Contributions
For the Year Ended June 30, 2019

Last Ten Fiscal Years¹

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

Fiscal year	2018-19	2017-18	2016-17	2015-16	2014-15
Actuarially determined contribution ²	\$ 812,147	\$ 715,005	\$ 628,828	\$ 658,011	\$ 608,372
Contribution in relation to the determined contribution ²	<u>(812,147)</u>	<u>(715,005)</u>	<u>(628,828)</u>	<u>(1,272,291)</u>	<u>(608,372)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (614,280)</u>	<u>\$ -</u>
District's covered payroll	<u>\$ 6,317,955</u>	<u>\$ 6,059,920</u>	<u>\$ 5,443,095</u>	<u>\$ 4,320,078</u>	<u>\$ 3,985,522</u>
Contribution as a percentage of covered payroll	<u>12.85%</u>	<u>11.80%</u>	<u>11.55%</u>	<u>29.45%</u>	<u>15.26%</u>

¹ Historical information is presented for measurement periods for which GASB 68 is applicable. Additional years' information will be displayed as it becomes available.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" are not considered separately financed specific liabilities.

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2017 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

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

West Valley Water District
Required Supplementary Information (Unaudited)
Schedule of Contributions (Continued)
For the Year Ended June 30, 2019

Last Ten Fiscal Years¹

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

Fiscal year	2013-14
Actuarially determined contribution	\$ 563,394
Contribution in relation to the actuarially determined contribution	(563,394)
Contribution deficiency (excess)	\$ -
Covered payroll	\$ 3,776,382
Contribution as a percentage of covered payroll	14.92%

¹ Historical information is presented for measurement periods for which GASB 68 is applicable. Additional years' information will be displayed as it becomes available.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their side fund or their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" are not considered separately financed specific liabilities.

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2017 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

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

West Valley Water District
Required Supplementary Information (Unaudited)
Schedule of Changes in Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2019

Last Ten Fiscal Years ¹

Other Postemployment Benefits ("OPEB") Plan

Measurement period	2017-18	2016-17
Total OPEB liability		
Service cost	\$ 236,285	\$ 683,520
Interest	552,581	428,490
Actual vs. expected experience	2,279,483	-
Changes of assumptions	(43,695)	(7,209,389)
Benefit payments	(320,225)	(287,245)
Net change in total OPEB liability	2,704,429	(6,384,624)
Total OPEB liability - beginning	8,110,225	14,494,849
Total OPEB liability - ending (a)	\$ 10,814,654	\$ 8,110,225
OPEB fiduciary net position		
Contributions -		
Contributions - employer	1,150,225	-
Net investment income	12,291	-
Benefit payments	(320,225)	-
Administrative expense	(296)	-
Net change in plan fiduciary net position	841,995	-
Plan fiduciary net position, beginning	-	-
Plan fiduciary net position, ending (b)	841,995	-
Plan net OPEB liability - ending (a) - (b)	\$ 9,972,659	\$ 8,110,225
Plan's fiduciary net position as a percentage of the total OPEB liability	7.79%	0.00%
Covered payroll	\$ 6,831,331	\$ 6,080,776
Plan net OPEB liability as a percentage of covered payroll	158.31%	133.37%

¹ Historical information is presented for measurement periods for which GASB 75 is applicable. Additional years' information will be displayed as it becomes available.

Notes to Schedule:

Changes in assumptions: None

West Valley Water District
Required Supplementary Information (Unaudited)
Schedule of Contributions
For the Year Ended June 30, 2019

Last Ten Fiscal Years ¹

Other Postemployment Benefits ("OPEB") Plan

Fiscal year	2018-19 ¹	2017-18 ¹
Actuarially determined contribution	\$ 859,000	\$ 869,006
Contribution in relation to the actuarially determined contribution	(953,106)	(1,150,225)
Contribution deficiency (excess)	<u>\$ (94,106)</u>	<u>\$ (281,219)</u>
Covered payroll	7,263,849	6,831,331
Contribution as a percentage of covered payroll	13.12%	16.84%

¹ Historical information is presented for measurement periods for which GASB 75 is applicable. Additional years' information will be displayed as it becomes available.

Notes to Schedule:

Valuation date June 30, 2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Amortization Period	17-year fixed period for 2018/19
Asset valuation method	N/A
Discount rate	6.50%
General inflation	2.75%
Medical trend	Non-Medicare - 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076 and later years. Medicare - 6.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076 and later years.
Mortality improvement	Mortality projected fully generational with Scale MP-16.

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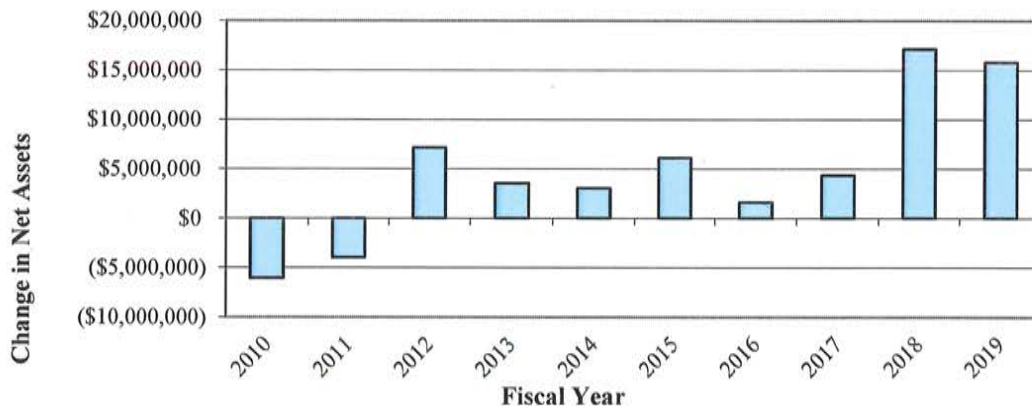
STATISTICAL SECTION

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West Valley Water District
Changes in Net Position by Component
Last Ten Fiscal Years

Schedule I

	Fiscal Year				
	2010	2011	2012	As Restated 2013	As Restated 2014
Changes in net position:					
Operating revenues (see Schedule 2)	\$ 12,847,976	\$ 14,396,755	\$ 15,601,438	\$ 19,264,708	\$ 22,907,911
Operating expenses (see Schedule 3)	(15,076,628)	(15,152,541)	(14,146,510)	(15,781,608)	(16,995,392)
Depreciation and amortization	(5,931,124)	(7,183,269)	(6,751,348)	(6,734,329)	(7,554,520)
Operating income(loss)	(8,159,776)	(7,939,055)	(5,296,420)	(3,251,229)	(1,642,001)
Non-operating revenues(expenses):					
Property taxes	1,160,572	1,268,513	1,422,629	1,760,434	1,459,571
Interest and investment earnings	92,589	87,581	60,255	48,171	64,380
Rental income - cellular antennas	41,767	42,393	27,714	35,663	26,746
Intergovernmental revenue	-	-	-	-	-
Gain/(loss) on sale/disposition of capital assets	(15,414)	3,137	16,171	-	45,650
Grants and Reimbursements	-	-	-	2,000,000	-
Board approved rate rebate	-	-	-	-	-
Interest expense - long term debt	(1,289,174)	(1,339,178)	(1,295,266)	(1,246,914)	(1,196,877)
Bond issuance costs	-	-	-	-	-
Amortization of deferred charges	(48,474)	(48,474)	(48,474)	(601,613)	(19,740)
Other non-operating revenue/(expense), net	(505,204)	56,826	(146,563)	55,737	34,575
Total non-operating revenues(expenses), net	(563,338)	70,798	36,466	2,051,478	414,305
Net income (loss) before capital contributions	(8,723,114)	(7,868,257)	(5,259,954)	(1,199,751)	(1,227,696)
Capital contributions	2,672,626	3,893,837	12,431,630	4,760,891	4,283,248
Changes in net position	\$ (6,050,488)	\$ (3,974,420)	\$ 7,171,676	\$ 3,561,140	\$ 3,055,552
Prior period adjustment					
Net position by component:					
Net investment in capital assets	\$ 74,814,533	\$ 76,040,629	\$ 85,587,880	\$ 87,705,995	\$ 86,581,350
Restricted for capital projects	7,177,336	6,061,134	5,058,581	5,061,866	3,190,652
Restricted for debt service	55,816	56,104	55,093	2,196,172	2,194,435
Unrestricted	12,145,548	10,824,854	9,666,276	8,964,937	15,018,085
Total net assets	\$ 94,193,233	\$ 92,982,721	\$ 100,367,830	\$ 103,928,970	\$ 106,984,522

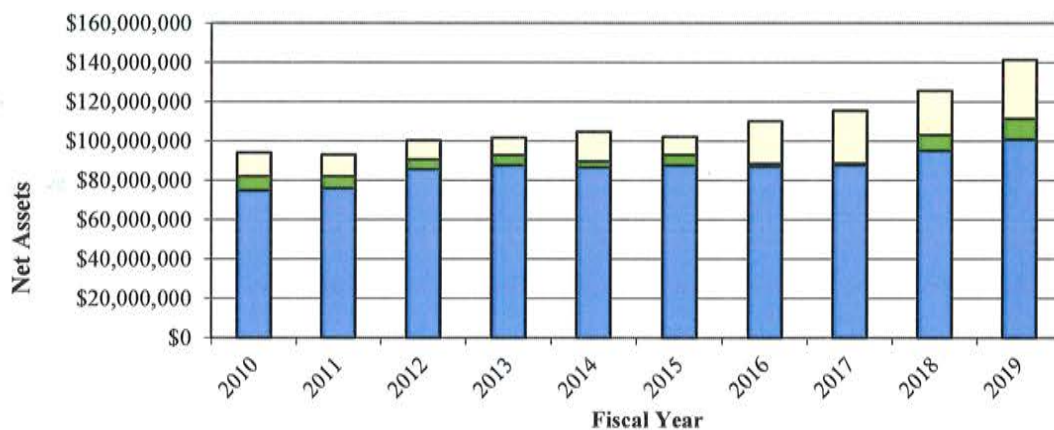


Source: West Valley Water District Accounting Department

West Valley Water District
Changes in Net Position by Component (Continued)
Last Ten Fiscal Years

Schedule 1

	Fiscal Year				
	2015	2016	2017	2018	2019
Changes in net position:					
Operating revenues (see Schedule 2)	\$ 25,012,159	\$ 23,230,364	\$ 26,677,886	\$ 28,543,972	\$ 28,356,765
Operating expenses (see Schedule 3)	(17,034,621)	(16,736,478)	(20,446,067)	(21,706,285)	(23,287,875)
Depreciation and amortization	(7,589,826)	(7,667,691)	(7,889,469)	(6,268,421)	(6,344,364)
Operating income(loss)	387,712	(1,173,805)	(1,657,650)	569,266	(1,275,474)
Non-operating revenues(expenses):					
Property taxes	1,658,936	1,758,220	1,821,922	2,023,173	2,305,151
Interest and investment earnings	65,371	127,090	227,465	367,911	1,795,521
Rental income - cellular antennas	32,207	29,966	37,241	32,941	33,860
Intergovernmental revenue	-	-	-	-	-
Gain/(loss) on sale/disposition of capital assets	24,644	24,400	60,980	15,400	-
Grants and Reimbursements	-	43,241	2,518,254	554,897	703,949
Board approved rate rebate	-	(2,547,492)	-	(2,263,619)	-
Interest expense - long term debt	(1,148,837)	(1,055,660)	(940,835)	(879,953)	(897,275)
Bond issuance costs	-	-	(268,915)	-	-
Amortization of deferred charges	(19,740)	-	-	-	-
Other non-operating revenue/(expense), net	202,348	24,524	(931,062)	73,498	3,015,464
Total non-operating revenues(expenses), net	814,929	(1,595,711)	2,525,050	(75,752)	6,956,670
Net income (loss) before capital contributions	1,202,641	(2,769,516)	867,400	493,514	5,681,196
Capital contributions	4,940,175	4,383,464	3,506,937	16,643,552	10,120,527
Changes in net position	\$ 6,142,816	\$ 1,613,948	\$ 4,374,337	\$ 17,137,066	\$ 15,801,723
Prior period adjustment		\$ 1,421,880			
Net position by component:					
Net investment in capital assets	\$ 87,693,459	\$ 87,041,544	\$ 87,731,340	\$ 95,204,664	\$ 100,736,605
Restricted for capital projects	5,360,944	1,366,458	929,737	7,875,322	10,699,965
Restricted for debt service	5,873,252	1,020,896	-	-	-
Unrestricted	9,219,049	21,753,634	26,895,792	22,622,990	30,068,129
Total net assets	\$ 108,146,704	\$ 111,182,532	\$ 115,556,869	\$ 125,702,976	\$ 141,504,699

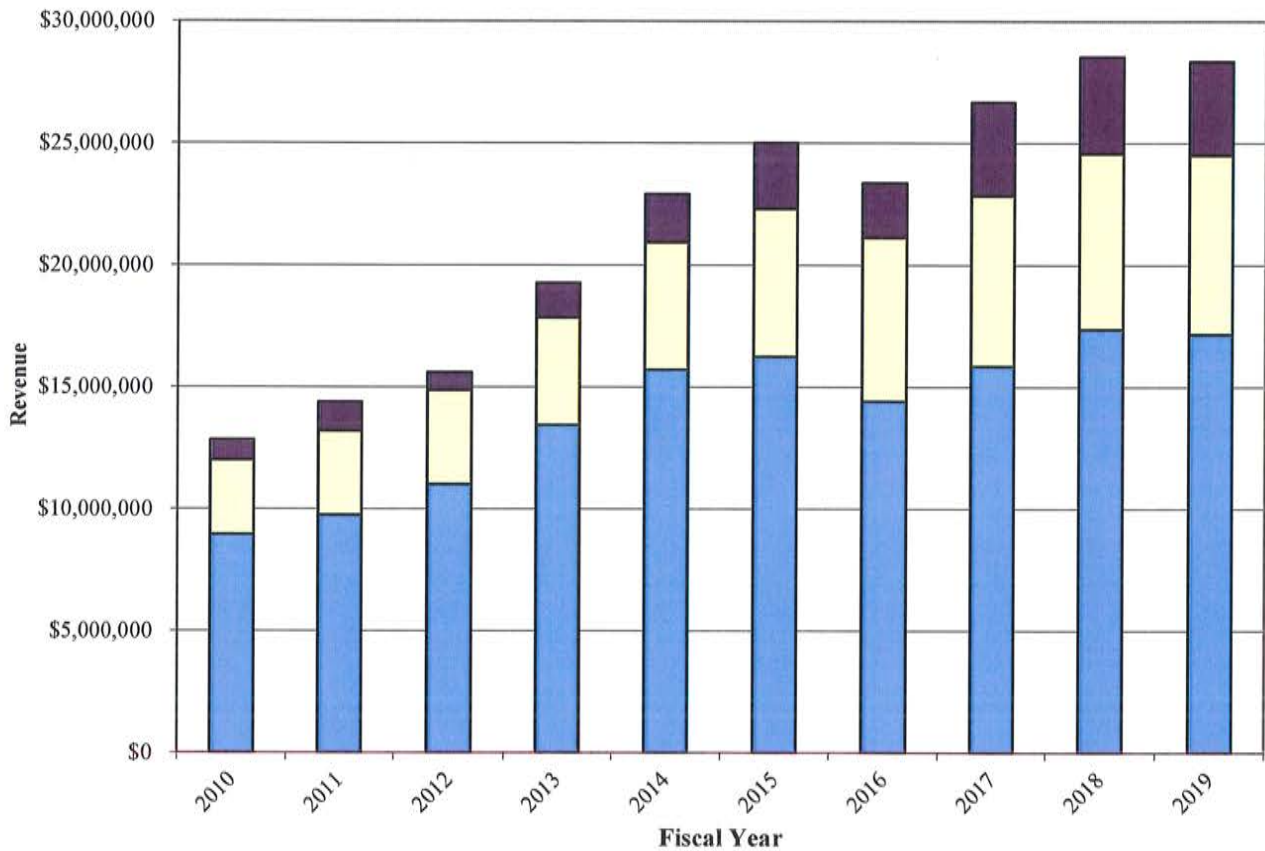


Source: West Valley Water District Accounting Department

West Valley Water District Operating Revenue By Source Last Ten Fiscal Years

Schedule 2

Fiscal Year	Water Consumption Sales	Water Service Charges	Other Operating Income	Total Operating Revenue
2010	8,961,085	3,053,040	833,851	12,847,976
2011	9,750,303	3,448,236	1,198,216	14,396,755
2012	11,019,032	3,855,757	726,649	15,601,438
2013	13,442,407	4,398,803	1,423,498	19,264,708
2014	15,715,734	5,214,461	1,977,716	22,907,911
2015	16,246,445	6,061,174	2,704,540	25,012,159
2016	14,420,079	6,702,841	2,240,801	23,363,721
2017	15,854,879	6,989,061	3,833,946	26,677,886
2018	17,370,508	7,201,939	3,971,525	28,543,972
2019	17,163,673	7,350,127	3,842,965	28,356,765

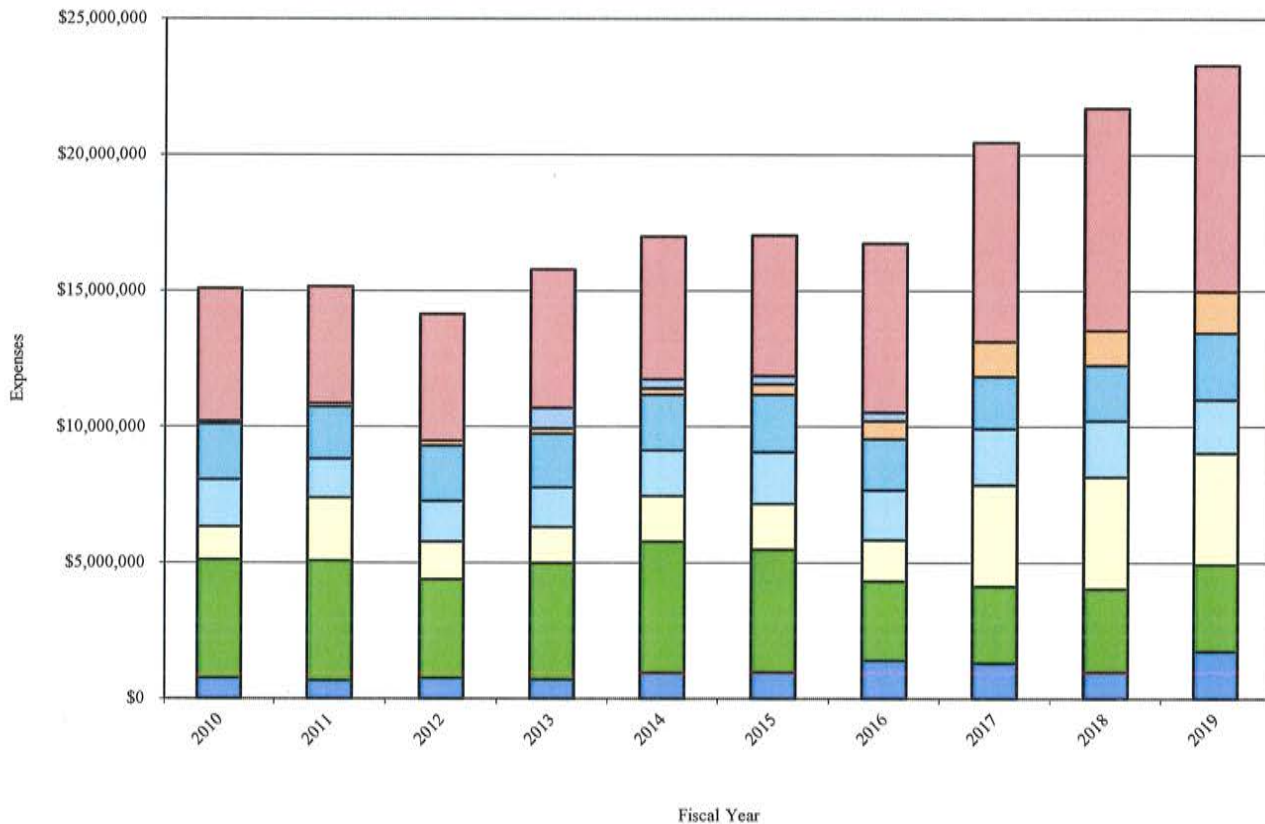


Source: West Valley Water District Accounting Department

West Valley Water District Operating Expenses by Activity Last Ten Fiscal Years

Schedule 3

Fiscal Year	Source of Supply	Pumping	Water Treatment	Transmission and Distribution	Customer Accounts	Public Affairs	Bioremediation	General and Administrative	Total Operating Expenses
2010	760,170	4,356,011	1,204,436	1,740,459	2,043,316	90,123	-	4,882,113	15,076,628
2011	671,055	4,401,510	2,325,866	1,417,810	1,923,981	122,064	-	4,290,255	15,152,541
2012	759,898	3,624,258	1,388,672	1,500,136	2,032,390	183,840	-	4,657,316	14,146,510
2013	698,507	4,288,300	1,323,713	1,451,836	1,977,941	199,973	752,907	5,088,431	15,781,608
2014	951,189	4,831,597	1,668,548	1,687,965	2,035,498	229,295	342,780	5,248,520	16,995,392
2015	960,369	4,524,032	1,680,613	1,907,194	2,104,526	383,739	308,193	5,165,955	17,034,621
2016	1,404,819	2,910,119	1,524,622	1,825,012	1,885,567	656,120	317,601	6,212,618	16,736,478
2017	1,307,160	2,823,389	3,723,148	2,071,867	1,923,943	1,273,562	-	7,322,998	20,446,067
2018	972,624	3,066,501	4,110,055	2,074,410	2,031,657	1,280,123	-	8,170,915	21,706,285
2019	1,740,717	3,189,444	4,101,693	1,966,357	2,456,429	1,520,168	-	8,313,067	23,287,875

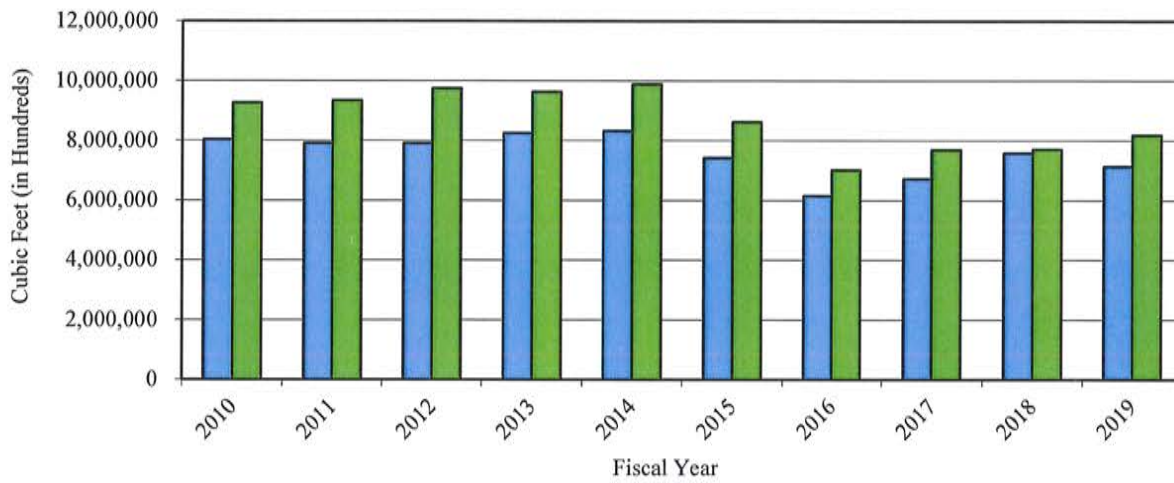


Source: West Valley Water District Accounting Department

West Valley Water District Revenue Base Last Ten Fiscal Years

Schedule 4

Fiscal Year	Water Sales (HCF)	Water Produced (HCF)
2010	8,036,066	9,261,727
2011	7,909,036	9,337,086
2012	7,912,309	9,742,948
2013	8,250,812	9,629,632
2014	8,323,184	9,891,169
2015	7,419,170	8,621,349
2016	6,151,431	7,016,601
2017	6,710,551	7,685,902
2018	7,576,183	7,705,595
2019	7,127,708	8,173,416



Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

Source: West Valley Water District Accounting Department

West Valley Water District Revenue Rates Last Ten Fiscal Years

Schedule 5

Water Consumption per Hundred Cubic Feet (HCF)										
Service Type	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fire	60.50	67.00	74.00	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tier 1				80.00	92.50	106.50	106.50	106.50	106.50	106.50
Tier 2				87.50	100.00	115.00	115.00	115.00	115.00	115.00
Tier 3				95.00	110.00	126.50	126.50	126.50	126.50	126.50
Golf Course	0.77	0.85	0.94	By contract	By contract	By contract	By contract	By contract	By contract	By contract
Hydrant	1.98	2.18	2.40	2.76	2.76	2.76	2.76	2.76	2.76	2.76
Irrigation:										
Demand	0.61	0.68	0.75	By contract	By contract	By contract	By contract	By contract	By contract	By contract
Gravity Flow	0.61	0.68	0.75	By contract	By contract	By contract	By contract	By contract	By contract	By contract
Pressure	0.88	0.97	1.07	By contract	By contract	By contract	By contract	By contract	By contract	By contract
Water	1.21	1.34	1.48	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tier 1				1.60	1.85	2.13	2.13	2.13	2.13	2.13
Tier 2				1.75	2.00	2.30	2.30	2.30	2.30	2.30
Tier 3				1.90	2.20	2.53	2.53	2.53	2.53	2.53

Connection Fees Per Month

Meter Size	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fire										
5/8" & 3/4"	7.57	8.33	9.17	10.54	10.54	10.54	10.54	10.54	10.54	10.54
1"	7.57	8.33	9.17	10.54	10.54	10.54	10.54	10.54	10.54	10.54
1 1/2"	11.36	12.50	13.76	15.81	15.81	15.81	15.81	15.81	15.81	15.81
2"	15.14	16.66	18.34	21.08	21.08	21.08	21.08	21.08	21.08	21.08
3"	22.71	24.99	27.51	31.62	31.62	31.62	31.62	31.62	31.62	31.62
4"	30.28	33.32	36.68	42.16	42.16	42.16	42.16	42.16	42.16	42.16
6"	45.42	49.98	55.02	63.24	63.24	63.24	63.24	63.24	63.24	63.24
8"	60.56	66.64	73.36	84.32	84.32	84.32	84.32	84.32	84.32	84.32
Golf Course										
All Sizes	47.66	52.43	57.68	By contract	By contract	By contract	By contract	By contract	By contract	By contract
Hydrant										
All Sizes	52.58	57.84	63.63	73.17	73.17	73.17	73.17	73.17	73.17	73.17
Irrigation										
All Sizes:										
Demand	47.66	52.43	57.68	By contract	By contract	By contract	By contract	By contract	By contract	By contract
Gravity Flow	47.66	52.43	57.68	By contract	By contract	By contract	By contract	By contract	By contract	By contract
Pressure	47.66	52.43	57.68	By contract	By contract	By contract	By contract	By contract	By contract	By contract
Water										
5/8" & 3/4"	12.06	13.27	14.60	16.79	19.31	22.21	22.21	22.21	22.21	22.21
1"	17.97	19.77	21.75	25.01	28.76	33.07	33.07	33.07	33.07	33.07
1 1/2"	26.50	29.15	32.07	36.88	42.41	48.77	48.77	48.77	48.77	48.77
2"	36.50	40.15	44.17	50.80	58.42	67.18	67.18	67.18	67.18	67.18
3"	52.99	58.29	64.12	73.74	84.80	97.52	97.52	97.52	97.52	97.52
4"	69.85	76.84	84.53	97.21	111.79	128.56	128.56	128.56	128.56	128.56
6"	105.97	116.57	128.23	147.46	169.58	195.02	195.02	195.02	195.02	195.02
8"	142.08	156.29	171.92	197.71	227.37	261.48	261.48	261.48	261.48	261.48

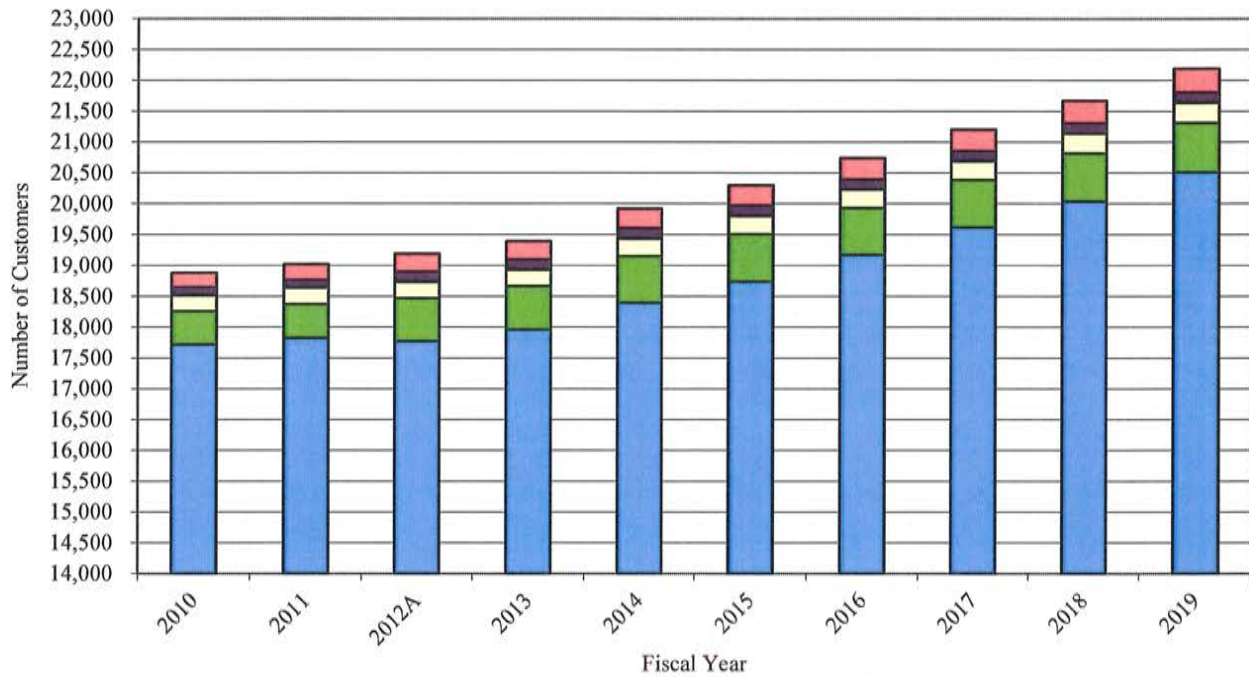
Note 1: Out of District rates for Water Service are one and a half times the In District rates.
 Note 2: The rates for Golf Course and Irrigation Services are by written agreement between the user and the District.

Source: West Valley Water District Board of Directors approved rate ordinances and resolutions

West Valley Water District Customers by Type Last Ten Fiscal Years

Schedule 6

Fiscal Year	Customer Type								Total
	Residential	Commercial	Fire Service	Irrigation	Multi-Family	Park way	Golf Course	Wholesale Water	
2010	17,715	543	257	11	117	238	1	-	18,882
2011	17,824	549	262	12	117	253	1	-	19,018
2012A	17,773	692	267	13	155	287	-	-	19,187
2013	17,961	703	266	10	155	296	-	-	19,391
2014	18,397	754	284	11	159	316	-	-	19,921
2015	18,740	769	292	11	159	330	-	-	20,301
2016	19,174	756	299	10	159	341	-	1	20,740
2017	19,620	766	302	10	159	346	-	1	21,204
2018	20,043	779	318	10	159	366	-	1	21,676
2019	20,509	803	327	8	159	386	-	1	22,193



Note A: As a result of the 2012 rate study, certain accounts were reclassified to other types.

Source: West Valley Water District Accounting Department

**West Valley Water District
Principal Customers
Last Ten Fiscal Years**

Schedule 7

Customer	2019		2010	
	Water Consumed	Percentage of Total	Water Consumed	Percentage of Total
Rialto Unified School District	187,549	2.63%	235,518	2.93%
City of Rialto	154,155	2.16%	163,717	2.04%
Robertson's Ready Mix	119,627	1.68%	164,062	2.04%
Aramark Uniform Services	115,188	1.62%	29,771	0.37%
Colton Joint Unified School District	113,534	1.59%	150,853	1.88%
City of Fontana	89,945	1.26%	109,865	1.37%
Target	84,089	1.18%	109,710	1.37%
Marygold Mutual Water Company	81,864	1.15%		0.00%
My Montceito III	60,481	0.85%	66,292	0.82%
Cal Trans	54,562	0.77%	2,873	0.04%
Total	1,060,994	14.89%	1,032,661	12.85%
Total Water Consumed (HCF)	7,127,708	100.00%	8,036,066	100.00%

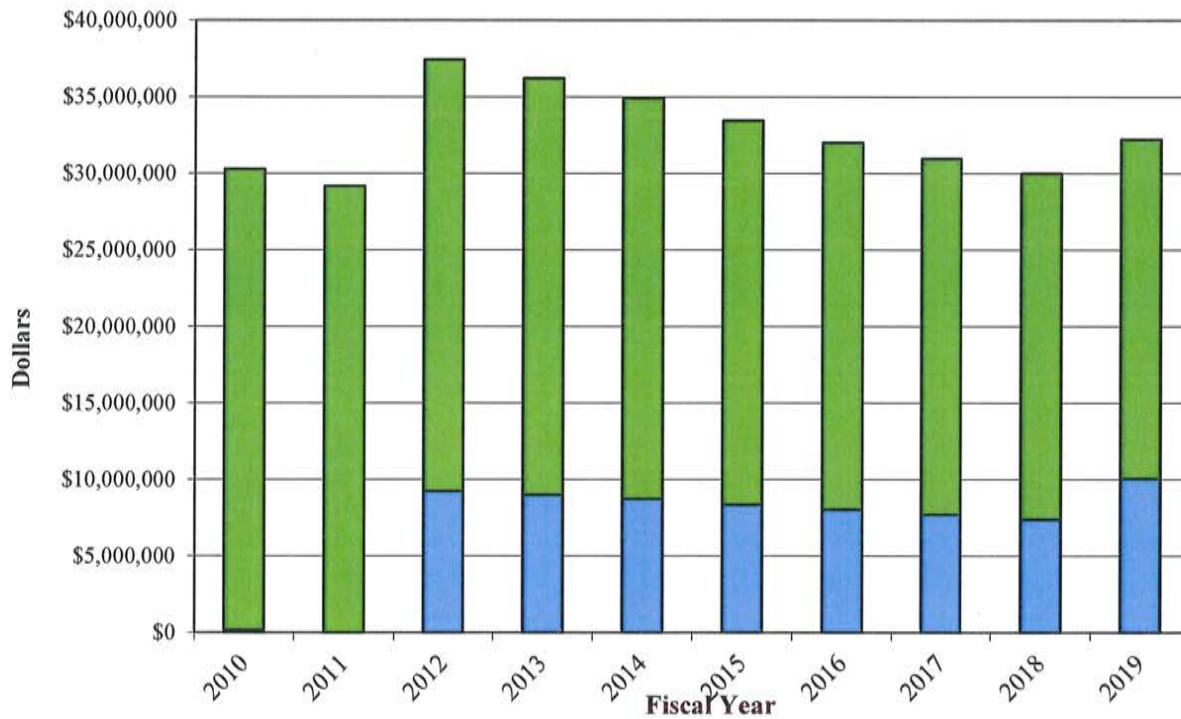
Note 1: Water Sales figures were taken from queries of the consumption data available in HTE.

Source: West Valley Water District Accounting Department

West Valley Water District Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Schedule 8

Fiscal Year	Contracts Payable	Bonds Payable	Notes Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2010	180,009	30,095,000	-	30,275,009	301.96	1.01%
2011	-	29,170,000	-	29,170,000	290.94	0.93%
2012	9,234,336	28,195,000	-	37,429,336	370.47	1.16%
2013	9,002,807	27,190,000	-	36,192,807	358.71	1.12%
2014	8,734,867	26,155,000	-	34,889,867	345.39	1.05%
2015	8,359,750	25,080,000	-	33,439,750	325.48	0.99%
2016	8,038,221	23,955,000	-	31,993,221	310.22	0.88%
2017	7,716,692	23,232,381	-	30,949,073	299.56	0.81%
2018	7,395,163	22,596,763	-	29,991,926	289.60	0.75%
2019	10,065,744	22,156,146	-	32,221,889	311.50	0.77%



Source: West Valley Water District Accounting Department

**West Valley Water District
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year	Net Revenues	Operating Expenses ⁽¹⁾	Net Available Revenues	Debt Service			Schedule 9
				Principal ⁽²⁾	Interest	Total	Coverage
							Ratio
2010	14,142,904	(14,391,194)	(248,290)	1,105,009	1,278,441	2,383,450	(0.10)
2011	15,855,205	(15,843,330)	11,875	1,296,529	1,241,103	2,537,632	0.00
2012	17,128,207	(14,836,728)	2,291,479	1,326,529	1,349,370	2,675,899	0.86
2013	21,164,713	(17,630,135)	3,534,578	1,356,529	1,297,214	2,653,743	1.33
2014	24,538,833	(18,212,009)	6,326,824	1,450,117	1,113,028	2,563,145	2.47
2015	26,995,665	(18,203,198)	8,792,467	1,446,529	1,148,837	2,595,366	3.39
2016	25,371,162	(20,346,357)	5,024,805	1,446,529	1,055,660	2,502,189	2.01
2017	31,359,870	(21,288,947)	10,070,923	1,486,529	940,835	2,427,364	4.15
2018	31,558,717	(24,550,480)	7,008,237	916,529	917,400	1,833,929	3.82
2019	36,210,708	(24,069,383)	12,141,325	1,052,629	940,215	1,992,844	6.09

Notes:

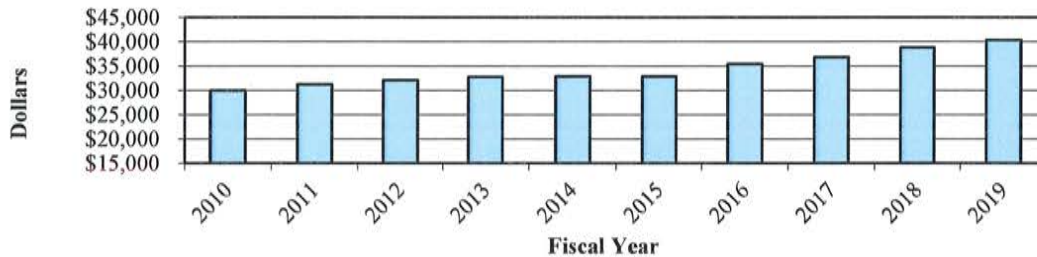
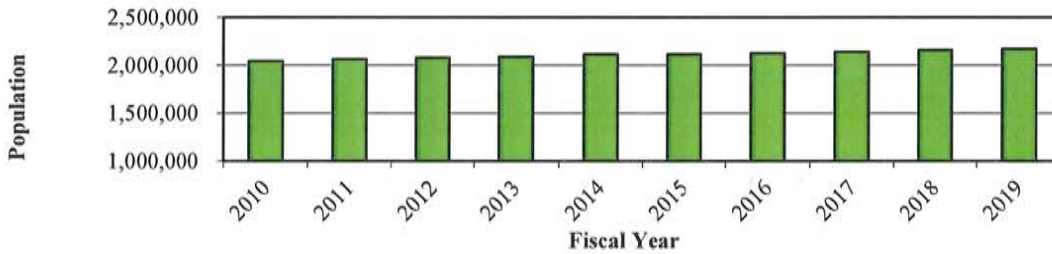
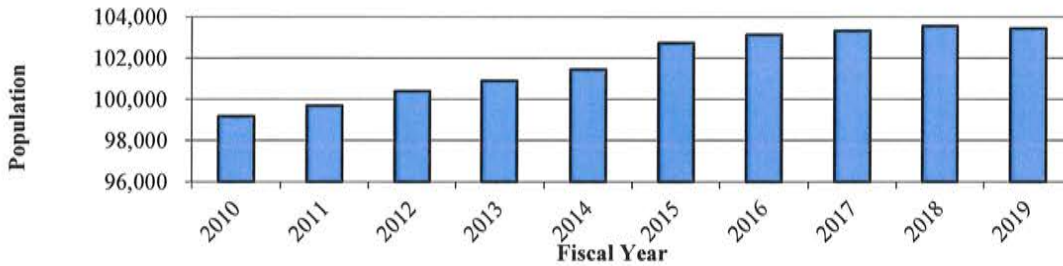
- (1) Operating expenses exclude depreciation expense, change in contingent liability and other post employment benefit expense
(2) Bond was refinanced in fiscal year 2017. New debt for Hydroelectric plant in FY2019.

Source: West Valley Water District Accounting Department

West Valley Water District Demographics and Economic Statistics Last Ten Calendar Years

Schedule 10

Year	County of San Bernardino ⁽²⁾					
	Unemployment Rate	City of Rialto Population ⁽¹⁾	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2010	18.1%	99,171	14.2%	2,041,626	61,147,087	29,950
2011	16.4%	99,686	12.9%	2,063,143	64,454,103	31,241
2012	14.3%	100,397	11.1%	2,077,453	66,577,329	32,048
2013	13.3%	100,896	10.4%	2,088,371	68,387,465	32,747
2014	11.6%	101,429	9.0%	2,112,619	69,487,877	32,892
2015	9.5%	102,741	8.1%	2,112,619	69,487,877	32,892
2016	7.0%	103,132	5.8%	2,128,133	75,402,896	35,431
2017	4.7%	103,314	5.4%	2,140,096	78,830,801	36,835
2018	4.2%	103,562	3.9%	2,157,404	83,741,561	38,816
2019	3.9%	103,440	4.1%	2,171,603	87,550,004	40,316



Sources:

- www.labormarketinfo.edd.ca.gov
- <http://www.bea.gov/regional/bearfacts>
- www.census.gov/

(1) Separate data is not available for the District, therefore the District has used the data for the City of Rialto. A substantial portion of the District lies within the city, and therefore, is a reasonable basis for determining the demographic and economic statistics of the District.

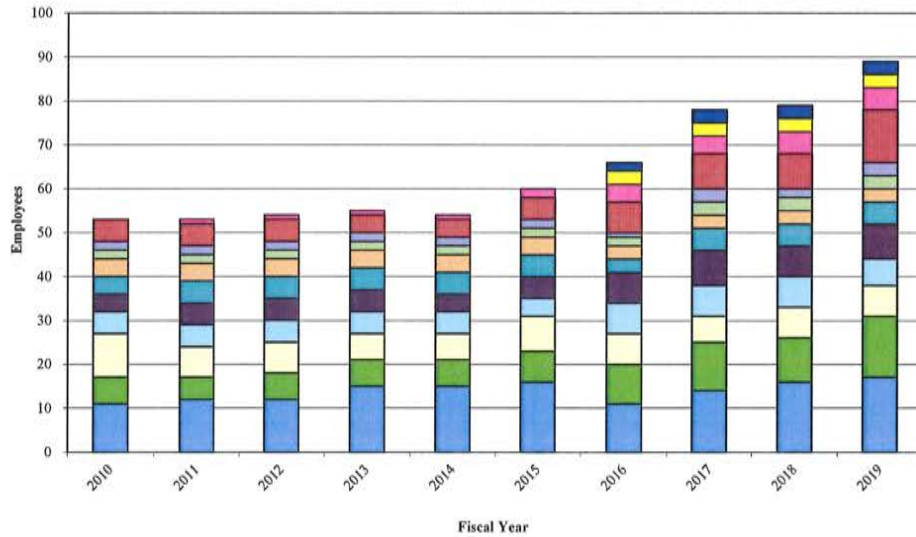
(2) Only County data is updated annually. Therefore, the District has chose to use its data since the District believes that the County data is representative of the conditions and experience of the District.

West Valley Water District Operating and Capacity Indicators Last Ten Fiscal Years

Schedule 11

Full-time Equivalent District Employees by Department

Fiscal Year	Water Treatment /Production	Maintenance /Asset Mgmt	Meters	Administration	Customer Service	Accounting	Billing	IT	Human Resources	Engineering	Public Affairs	Water Quality	Purchasing	Total
2010	11	6	10	5	4	4	4	2	2	5	0	0	0	53
2011	12	5	7	5	5	5	4	2	2	5	1	0	0	53
2012	12	6	7	5	5	5	4	2	2	5	1	0	0	54
2013	15	6	6	5	5	5	4	2	2	4	1	0	0	55
2014	15	6	6	5	4	5	4	2	2	4	1	0	0	54
2015	16	7	8	4	5	5	4	2	2	5	2	0	0	60
2016	11	9	7	7	7	3	3	2	1	7	4	3	2	66
2017	14	11	6	7	8	5	3	3	3	8	4	3	3	78
2018	16	10	7	7	7	5	3	3	2	8	5	3	3	79
2019	17	14	7	6	8	5	3	3	3	12	5	3	3	89



Source: West Valley Water District Human Resources Department

West Valley Water District
Operating and Capacity Indicators (Continued)
Last Ten Fiscal Years

Schedule 12

Other Operating and Capacity Indicators

Fiscal Year	District Area (Square Miles)	Miles of Pipeline	Storage Tanks	Storage Capacity (MG)	Groundwater Wells	Well Capacity (MGD)	Fire Hydrants
2010	31	365	26	73.6	17	43.0	2,040
2011	31	366	26	73.6	17	38.0	2,040
2012	31	366	26	73.6	17	35.0	2,040
2013	31	368	26	73.6	17	35.0	2,040
2014	31	370	26	73.6	17	35.0	2,040
2015	31	370	26	73.6	17	35.0	2,040
2016	32	370	26	73.6	17	35.0	2,944
2017	32	375	26	73.6	17	35.0	3,085
2018	32	376	26	73.6	17	35.0	3,104
2019	32	382	26	73.6	17	35.0	3,204

MG - Millions of Gallons

MGD - Millions of Gallons per Day

Sources: West Valley Water District Operations/GIS

Note: The Fire Hydrant total is inclusive of Hydrants and Jones heads.

**West Valley Water District
Principal Employers
Current Fiscal Year**

Schedule 13

City of Rialto - 2019 ⁽¹⁾

Employer	Employees	Rank	Percentage of Total
			Employment
Rialto Unified School District	2500 to 2999	1	5.81 - 6.97 %
Chuze Fitness	500 to 999	2	1.16 - 2.32 %
Rialto City Mayor	250 to 499	3	.58 - 1.16 %
Walmart Supercenter	250 to 499	4	.58 - 1.16 %
Walmart	250 to 499	5	.58 - 1.16 %
Amazon.Com Inc	250 to 499	6	.58 - 1.16 %
Vista Cove Care Ctr At Rialto	100 to 249	7	.23 - .58 %
Stater Bros Markets	100 to 249	8	.23 - .58 %
Sierra Lathing Co Inc	100 to 249	9	.23 - .58 %
Mesa Counseling Svc	100 to 249	10	.23 - .58 %

City of Fontana - 2019 ⁽²⁾

Employer	Employees	Rank	Percentage of Total
			Employment
Fontana Unified School District	4,010	1	4.05%
Kaiser Foundation Hospitals	2,243	2	2.26%
City of Fontana	1,016	3	1.03%
Target Stores T 553	760	4	0.77%

City of Colton - 2019 ⁽³⁾

Employer	Employees	Rank	Percentage of Total
			Employment
Arrowhead Regional Medical Center	3,800	1	20.00%
Colton Joint Unified School District	742	2	3.91%
Lineage Logistics	430	3	2.26%
Ashley Furniture	400	4	2.11%

Note: Above sites have not been updated for the fiscal year 2019. The most recent data is displayed.

(1) City of Rialto, 2017-2018 CAFR, pg. 210

(2) City of Fontana, 2017-2018 CAFR, pg. 156

(3) City of Colton, 2017-2018 CAFR, pg. 165



January 20, 2020

To the Board of Directors
of the West Valley Water District
Rialto, California

We have audited the financial statements of the business-type activities of the West Valley Water District (the “District”) for the year ended June 30, 2019. Professional standards require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated November 18, 2019, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of the District. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of District’s compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

Generally accepted accounting principles provide for certain Required Supplementary Information (“RSI”) to supplement the basic financial statements. Our responsibility with respect to Schedule of the District’s Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Contributions – Pension, Schedule of Changes in Net Other Postemployment Benefits Plan (“OPEB”) Liability and Related Ratios, Schedule of Contributions – Other Postemployment Benefits, which supplement the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have not been engaged to report on the Introductory and Statistical Sections, which accompany the financial statements but are not RSI. Our responsibility with respect to this other information in documents containing the audited financial statements and auditor’s report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information will not be audited and we will not express an opinion or provide any assurance on it.

To the Board of Directors
of the West Valley Water District
Rialto, California
Page 2

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the District implemented the following accounting standards:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

- Management's estimate of the investment fair market value is based on information provided by US Bank for the District's investment in U.S. agency obligations, U.S. treasury obligations, U.S. corporate and Supranational. We evaluated the key factors and assumptions used to develop the investment fair market value in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the depreciation on capital assets is based on the industry standard and past experience on actual useful life of the asset groups. We evaluated the key factors and assumptions used to develop the depreciation on capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liabilities is based on the actuarial valuation on total pension liability and based on financial statements on fiduciary net position for CalPERS plans and collateral plan. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net other post employment benefit ("OPEB") liability is based on the actuarial valuation on total OPEB liability and based on fiduciary net position for OPEB plan. We evaluated the key factors and assumptions used to develop the net OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.

To the Board of Directors
of the West Valley Water District
Rialto, California
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No other new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 1 – Reporting Entity and Summary of Significant Accounting Policies
- Note 7 – Defined Benefits Pension Plan
- Note 8 – Other Postemployment Benefits (“OPEB”)
- Note 10 – Commitments and Contingencies

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 20, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Board of Directors
of the West Valley Water District
Rialto, California
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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios, Schedule of Contributions – Pension, Schedule of Changes in Net Other Postemployment Benefits Plan Liability and Related Ratios, Schedule of Contributions – Other Postemployment Benefits, which are Required Supplementary Information ("RSI") that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on Introductory and the Statistical Sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of the West Valley Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California

West Valley Water District

Rialto, California

Matters of Internal Control

For the Year Ended June 30, 2019



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**West Valley Water District
Matters on Internal Control
For the Year Ended June 30, 2019**

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

Independent Auditors' Report

To the Board of Directors
of the West Valley Water District
Rialto, California

We have audited the financial statements of the West Valley Water District ("District"), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to financial statements and have issued our report dated January 20, 2020.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying letter as items 2019-001, 2019-002, and 2019-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying letter as items 2019-004, 2019-005 and 2019-006 to be significant deficiencies.

To the Board of Directors
of the West Valley Water District
Rialto, California
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Compliance and Other Matters

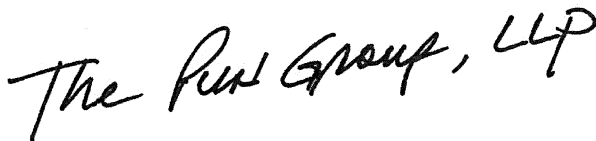
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

District's Response to Findings

District's response to the findings identified in our audit is described in the accompanying letter. District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Santa Ana, California
January 20, 2020

**West Valley Water District
Matters on Internal Control
For the Year Ended June 30, 2019**

Finding 2019-001 Accounting Manual (Material Weakness)

Condition:

During the performance of our audit, we noted that the District does not have an updated policies and procedures manual (accounting manual) which would define personnel roles and responsibilities, describe appropriate procedures for recording significant transactions in finance and accounting systems, define and set procedures for management oversight and review, establish key internal controls, and ensure accounting and reporting requirements established by GAAP are followed.

Criteria:

Pursuant to the Standards for Internal Control, Principle 12 – Implement Control Activities, management should implement control activities through policies.

An accounting manual would aid the Finance Department and the District in providing training for accounting personnel, communicating and providing a source of reference to approved policies, and maintaining consistency of recording financial transactions.

Communication is an essential component of a comprehensive framework of internal controls. One method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of accounting policies and procedures. A well-designed and properly maintained system of documenting accounting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff.

Cause:

Significant turnover of its Chief Financial Officer Position caused delay in preparing a comprehensive accounting manual.

Effect:

Without the accounting manual, personnel responsible for the daily work and transactions do not have a clear understanding of their role and responsibilities or the accounting standards applicable to their function. In addition, the absence of standardized procedures has and will create inefficient and inconsistent processing of transactions. Absent clear guidance, delays in financial reporting occur, as staff is unaware of where to find the answers.

Recommendation:

We recommend that the District develop a comprehensive accounting manual that would set the guidelines for recording significant transactions in the general ledger. In addition, management should consider developing an accounting manual which includes at a minimum:

- Descriptions of functions each position performs
- Specific duties and responsibilities (desk procedures)
- Minimum required qualifications or standards
- Board/Management approved policies relating to specific transactions
- Procedures for processing of specific financial activities
- Appropriate monitoring and review controls

Management Response:

Management recognizes the importance of a policies and procedures manual. Upon hiring a new Chief Financial Officer, one of their immediate tasks will be to produce such a manual.

**West Valley Water District
Matters on Internal Control (Continued)
For the Year Ended June 30, 2019**

Finding 2019-002 Lack of Segregation of Duties in the Accounting Systems (Material Weakness)

Condition:

During our audit, we noted management of the District retains the non-purchasing access right in the accounting system for an employee who used to work in the Accounting Department, but has since been transferred to the Purchasing Department (Asset Manager). We reviewed the users' access rights list, and noted the employee still has administrative access to the following modules that are outside of the purchasing function: accounting, cash receipt, accounts receivable, accounts payable.

In addition, the Executive Assistant is given the same access rights as the Purchasing Supervisor. The Executive Assistant would be able to approve purchase orders and purchase requisitions.

A serious lack of segregation of duties was noted in the accounting system. Purchasing staff have access to accounting, cash receipt, account receivable, accounts payable as well as purchasing. In addition, all vendor invoices are to be received in the Purchasing department and Purchasing department staff are responsible for obtaining department head signatures, ensure proper account coding, match up packing slips with the invoice and purchase order. The invoice packet is routed to the Accounting department where the accounts payable staff enters and processes the invoices.

We have also reviewed the assessment of the District's Finance Department performed by MV Cheng and Associates regarding the Department's administration, organizational structure, systems and finance operations, and reporting practices and concur with the findings as follows:

- Ineffective policies and procedures relating to internal controls, segregation of duties and daily functions.
- Lack of experienced leadership in the Accounting/Finance department.
- Poor and inconsistent communication within the departmental staff and management.
- Limited staff resources to support functional needs/tasks.
- Fiscal policies are not maintained in a central location. Finance and management staff could not locate key policies (e.g., capital asset management, debt and investment and risk management).
- Checks requiring two signatures are usually slow to obtain signature and mail.
- Inconsistent purchasing and contract requirement, that creates confusion amongst accounting staff.
- Lack of internal audit function, which can be very useful for the District. It helps the District accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- Purchasing forms are not consistent with policy.
- Purchasing policy is unclear and challenging to comply with. In addition, the policy is confusing on approval of purchases.
- Invoices are being sent to several locations which is difficult to track and process.
- Establishing, approving and processing of vendors and vendor invoices are challenging and not efficiently managed.
- Purchase orders are issued without an approved and executed contract.
- W-9s are not completed for all vendors timely.
- Payroll function should be in a secured location, currently payroll is in an unsecured location accessible to anyone.

West Valley Water District
Matters on Internal Control (Continued)
For the Year Ended June 30, 2019

Finding 2019-002 Lack of Segregation of Duties in the Accounting Systems (Material Weakness)
(Continued)

Criteria:

Pursuant to the Standards for Internal Control, Principle 11 – Design Activities for the Information System, management should design control activities for security management of the entity’s information system. Security management includes the information processes and control activities related to access rights in an entity’s information technology, including who has the ability to execute, track and record transactions.

Cause:

Significant turnover of the Chief Financial Officer Position caused delay in implementing controls in the accounting system.

Effect:

The lack of proper segregation of duties may lead to improper approval and record of transactions, and financial statement misstatements.

Recommendation:

We recommend the District to perform a Comprehensive Risk Assessment and risk profile for all significant transaction classes, including but not limited to, the following:

- Financial Reporting and Journal Entries Process
- Revenues, Receivable, and Cash Receipts Function
- Purchasing, Payable, and Cash Disbursement Function
- Payroll and Human Resources Function
- Capital Assets Management
- Long-Term Debt Administration
- Information Technology and Security

Once the District understands its own risk appetite, proper controls should be put in place to mitigate those risks identified in the Comprehensive Risk Assessment process.

Management Response:

Management recognizes the importance of segregation of duties and good internal controls. A complete assessment will be performed by the new Chief Financial Officer and the appropriate changes will be made to ensure proper segregation of duties and internal control are present in our operations.

**West Valley Water District
Matters on Internal Control (Continued)
For the Year Ended June 30, 2019**

Finding 2019-003 Contract Management (Material Weakness)

Condition:

We noted the following contracts with internal control deficiencies:

Aerotek Contract

During our audit, we noted the District entered into a service agreement with Aerotek on December 13, 2018. The contract was approved by the management for an amount not to exceed \$25,000. Aerotek billed the District on a weekly basis. By January 26, 2019, Aerotek has exceeded the original contract amount of \$25,000 and the District allowed Aertotek to continue the work without a contract.

On March 13, 2019, an additional \$25,000 was approved by the Board; however, this amount still did not cover all the billings that were presented to the District.

On March 21, 2019, the District increased the Budget for an additional \$75,000 to cover this contract.

Rob Katherman Contracts

During the audit, we noted that the contracts entered into with Rob Katherman dated June 2018 and March 2019 were not signed by the District. In addition, the contract dated June 2018 does not have a "total not to exceed amount".

For the period from May 1, 2018 to January 31, 2019, the total amount incurred and paid to Rob Katherman was \$55,394.56. However, the District paid \$22,049 to Rob Katherman without an authorized purchasing order.

Because of the lack of policies and procedures over purchasing, the District does not have sufficient monitoring and risk assessment control to prevent and detect unauthorized purchases.

Criteria:

Management is responsible for establishing sound internal controls over the procurement process and contract management.

Cause:

The District did not follow the District purchasing policy and also did not have adequate monitoring control over its contract management. A change order was not approved by the Board of Directors before the contract amount was exceeded.

Effect:

Inadequate internal control over contract management may lead to unauthorized transactions and misstatements in the financial statement.

West Valley Water District
Matters on Internal Control (Continued)
For the Year Ended June 30, 2019

Finding 2019-003 Contract Management (Material Weakness) (Continued)

Recommendation:

The District should establish and follow policies and procedures for budgeting, preparing its financial statements at the end of each fiscal year, and approving expenditures based on the GFOA guidelines and other best practices.

The District's procurement policies and procedures were last adopted in October 2016. To ensure that the District complies with its purchasing policy, the District should immediately develop and implement procedures for staff to obtain and document the required approval from the General Manager or the Board before committing District resources. Beginning immediately, the General Manager should also report to the Board on a regular basis for all purchases that only require approval from the General Manager. General Manager should report this type of purchases to the Board prior to making any new purchases.

Management Response:

Management agrees there needs to be better controls over its purchasing and contract management. Policies and procedures, along with the purchasing policy purchase limits must be adhered to.

**West Valley Water District
Matters on Internal Control (Continued)
For the Year Ended June 30, 2019**

Finding 2019-004 Excessive Increase in Pay Rate from Internal Promotion (Significant Deficiency)

Condition:

During the walkthrough of the District's payroll process, we noted a new employee was hired as Customer Service Representative III in August 2018. The employee was internally promoted to a management position (Water Resources Manager) in November 2018. For this internal promotion, the employee received a pay rate increase of 41.48% from \$31.92 per hour (Range 32 Step 15 for Customer Service Representative III) to \$45.16 per hour (Range 52 Step 8 for Water Resources Manager).

Per the salary schedule effective October 1, 2018, the position of Water Resource Manager has a minimum annual salary of \$79,165 (\$38.06 per hour) and a maximum annual salary of \$111,405 (\$53.56 per hour).

While reviewing the file of this employee, we only found a memo signed by the General Manager as a justification of this promotion.

Criteria:

Pursuant to the District's Human Resources Policies and Practices Manual (effective April 19, 2018), Article 3 – Recruitment Process, Hiring, and Employment, Section 305 *Internal Promotion*, an employee promoted to a higher position will receive the minimum salary for the higher position or at least a 5% increase above the employee's former position, whichever is higher, provided the increase is within the range of the higher position.

Cause:

The District approved an excessive increase (41.48%) in pay rate to an employee who was promoted internally. The employee was promoted to Step 8 at the new position.

Effect:

Although the new pay rate for the internally promoted employee falls within the range prescribed by the Human Resources Policies and Practices Manual, management should be prudent in determining the step the employee should be promoted to at the new position.

Recommendation:

We recommend the District develop a promotion protocol. A promotion protocol should include the following at a minimum:

- Posting New Jobs and Vacancies
- Selection of Potential Candidates
- Interview Qualified Candidates by a Interview Panel
- Rate Candidate's Qualifications and Interview Performance
- Selection of the Finalist

By following this protocol, a basis of the promotion is justified and will reduce any resentment and challenges from other District's employees.

Management Response:

While management followed the proper protocol per the Human Resources Policies and Practices Manual, we will be more cognizant of the appearance of such promotions. Hence, management will perform the necessary steps to ensure all qualified candidates receive a fair and transparent process prior to receiving a promotion.

West Valley Water District
Matters on Internal Control (Continued)
For the Year Ended June 30, 2019

Finding 2019-005 Internal Control over Inventory (Significant Deficiency)

Condition:

During our audit, we noted the District did not have an internal control system in place to accurately monitor inventory usage. The majority of the employees in the Engineering/Operations Department can access the inventory warehouse with an assigned key fob. Inventory taken by employees to be used in District projects are not tracked systematically.

Criteria:

Pursuant to the Standards for Internal Control, Principle 10 – Design Control Activities, management should design appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. Control activities include physical control over vulnerable assets, access restrictions to and accountability for resources and records, appropriate documentation of transactions and internal control.

Pursuant to the Standards for Internal Control, Principle 18 – Assess Fraud Risk, management should consider the potential for fraud when identifying, analyzing, and responding to risks. Fraud includes misappropriation of assets.

Cause:

The District did not have adequate internal control over physical inventory.

Effect:

Inadequate internal control over inventory may lead to unauthorized usage of inventory and misstatements in the financial statement. In addition, the lack of controls over physical inventory provides an opportunity for misappropriation of assets.

Recommendation:

We recommend the District to strengthen its control over inventory.

Management Response:

Management agrees there needs to be better controls over the access of the inventory room as well as tracking the inventory. A new tracking system called Maximo will be implemented in the near future and physical access will be restricted to those only needing to access the inventory room.

**West Valley Water District
Matters on Internal Control (Continued)
For the Year Ended June 30, 2019**

Finding 2019-006 Credit Balance from Colton Public Utilities (Significant Deficiency)

Condition:

During the current year, we noted that there was a credit balance for the City of Colton Public Utilities. A letter dated October 20, 2016 was sent by the City of Colton explaining the District was incorrectly billed and charged due to "Time of Use Billing Errors" for five cycles from May 2016 to October 2016. The amount overcharged was \$127,883.

The District made payments to the City of Colton Public Utilities during the period from March 2018 to November 2018 regardless of the credit balance remaining. The District has allowed the credit balance to exist for a long period of time.

In addition, we noted that the Supervisor of Operations did not verify and account for the water consumption used before bills are paid to the City of Colton Public Utilities.

The District finally requested the City of Colton Public Utilities refund the remaining credit balance and on January 24, 2019, the District received a refund check in the amount of \$95,939 (net of charges between October 2016 to November 2018).

Because of the lack of policies and procedures, the District does not have sufficient monitoring and risk assessment control to prevent and detect overpayments.

Criteria:

Management is responsible for establishing sound internal controls over accounts payable process.

Cause:

The District did not have adequate monitoring control over its payments to the City of Colton Public Utilities resulting an overpayment of water consumed.

Effect:

Inadequate internal control over accounts payable may lead to overpayment of goods and services and misstatements in the financial statement.

Recommendation:

The District should establish and follow policies and procedures over the account payable cycle and provide training to operation staff.

Management Response:

Management agrees the District staff needs to be more cognizant in reviewing and verifying the invoices to be paid. More training and supervision will be given to the District staff.

**West Valley Water District
Matters on Internal Control (Continued)
For the Year Ended June 30, 2019**

Status of Prior Year Findings:

No findings were noted by the predecessor auditors for the Year Ended June 30, 2018.