

Board of Commissioners
Puente Basin Water Agency
Walnut, California

Summary of Audit Results

We have audited the accompanying statement of net assets of the Puente Basin Water Agency (the "Agency") as of June 30, 2019 and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the audit.

Scope and Timing of the Audit

The scope and timing of the audit was communicated to the Board of Commissioners in our engagement letter dated March 2, 2018 and our communication to the Finance Committee dated July 31, 2019.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Agency are described in Note 1 to the financial statements. We noted no transactions entered into by the Agency during the year for which there is a lack of authoritative guidance or consensus. There were no new accounting standards implemented during the year. All significant transactions have been recognized in the financial statements in the proper period. 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. Examples of subjective considerations inherently included in the financial reporting process are:

- Management's estimate of the depreciation is computing using the straight-line method based on estimated useful lives which range from 4 to 75 years.
- Management's estimate involving revenues and expenses to be accrued as of the year end.

The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were detected during the audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 obtained certain representations from management that are included in the management representation letter dated November 8, 2019.

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 governmental unit'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.

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 and subsequent to our retention as the governmental unit's auditors. However, these discussions occur in the normal course of our professional relationship and any such discussion is not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis which is 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 Supplementary Information, which accompany the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Board of Commissioners and management of Puente Basin Water Agency and is not intended to be, and should not be, used by anyone other than these specified parties.



Irvine, California
November 8, 2019

PUENTE BASIN WATER AGENCY
BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2019

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PUENTE BASIN WATER AGENCY

FINANCIAL STATEMENTS

Year ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Puente Basin Water Agency
Walnut, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Puente Basin Water Agency ("Agency") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on Summarized Comparative Information

We have previously audited the Agency's 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2019 on our consideration of the Agency'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 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 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 Agency's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Lee UP". The signature is written in a cursive style.

Irvine, California
November 8, 2019

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**PUENTE BASIN WATER AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

This section of the Puente Basin Water Agency's (Agency) annual financial report presents our analysis of the Agency's financial performance during the fiscal years ending June 30, 2019 and June 30, 2018. Please read it in conjunction with the basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2019

- The Agency's net assets as of June 30, 2019 were \$33,285,149, an increase of \$4,505,285, or 15.7% over the prior year.
- Revenues totaled \$16,491,773 for the year, an increase of \$389,169 from the prior year.
- Beginning in July 2014, in order to properly account for the costs and benefits of water produced from the water reliability projects, funded jointly by the Walnut Valley Water District (WVWD) and the Rowland Water District (RWD), imported water purchased from TVMWD was invoiced through the Agency. For fiscal year 2019, the total of these pass-through costs was \$15,173,416 and is reflected in both the revenues and expenses of the Agency.
- Operating expenses for the year totaled \$17,474,328 for the year, these costs include the pass-through water costs from TVMWD.
- The La Habra Heights water reliability project produced no water for the year. Although no water was produced, internal costs, in the amount of \$17,859, were incurred related to the maintenance and management of the project facilities.
- During the year the Cal Domestic Project water reliability project produced 1,481 acre-feet of water. The costs related to the production of this water totaled \$1,692,541 for the year. These costs included the use of stored water in the amount of \$588,382, that was purchased and paid for in prior years.
- The Agency recorded an additional \$1,703,708 and \$1,990,438 in construction costs related to the Pathfinder Project and Pomona Basin Project respectively, which is currently being constructed and is reflected in the Agency's Construction in Progress account.
- The Agency entered into a 20-year lease with the City of La Verne in 2018 for land and an old well site, which was recorded as a capital lease. The value of the lease is recorded at the value of the future minimum lease payments in the amount of \$1,779,919.

Fiscal Year 2018

- The Agency's net assets as of June 30, 2018 were \$28,779,864, a decrease of \$352,117, or 1.2% over the prior year.
- Revenues totaled \$16,102,604 for the year, a decrease of \$5,735,162 from the prior year.

**PUENTE BASIN WATER AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

- Beginning in July 2014, in order to properly account for the costs and benefits of water produced from the water reliability projects, funded jointly by the Walnut Valley Water District (WVWD) and the Rowland Water District (RWD), imported water purchased from TVMWD was invoiced through the Agency. For fiscal year 2018, the total of these pass-through costs was \$14,742,678 and is reflected in both the revenues and expenses of the Agency.
- Operating expenses for the year totaled \$16,978,471 for the year, these costs include the pass-through water costs from TVMWD.
- The La Habra Heights water reliability project produced no water for the year. Although no water was produced, internal costs, in the amount of \$1,307, were incurred related to the maintenance and management of the project facilities.
- During the year the Cal Domestic Project water reliability project produced 1,804 acre-feet of water. The costs related to the production of this water totaled \$1,638,246 for the year. These costs included the use of stored water in the amount of \$588,382, that was purchased and paid for in prior years.
- The Agency recorded an additional \$186,327 and \$329,153 in construction costs related to the Pomona Basin Project and Pathfinder Project respectively, which is currently being constructed and is reflected in the Agency's Construction in Progress account.
- The Agency entered into a 20-year lease with the City of La Verne for land and an old well site, which was recorded as a capital lease. The value of the lease was recorded at the value of the future minimum lease payments in the amount of \$1,841,213.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements report information about the Agency using accounting methods similar to those used by private sector companies. The financial statements, comprised of the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows, offer short-term and long-term financial information about the Agency's activities. Each financial statement is identified and defined in this section and analyzed in subsequent sections of MD&A.

Statement of Net Assets

The Statement of Net Assets presents the Agency's financial position (assets and liabilities) as of June 30, 2019 and 2018. The Statement of Net Assets includes all of the Agency's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency. As of June 30, 2019 and 2018 the Agency had net assets, assets in excess of liabilities, of \$33,285,149 and \$28,779,864, respectively.

Statement of Revenues, Expenses & Changes in Net Assets

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Agency's operations and can be used to determine whether the Agency has successfully

**PUENTE BASIN WATER AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

recovered all of its costs through member assessments and other revenues. Revenues are recognized (recorded) when services are provided and expenses are recognized when incurred. Operating revenues and expenses are related to the Agency's core activities. The change in net assets for the years ending June 30, 2019 and 2018, was \$4,505,285 and \$(352,117), respectively.

Statement of Cash Flows

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Agency's cash receipts and cash payments during the fiscal year. The statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the year. As of June 30, 2019, cash and cash equivalents totaled \$1,633,112 an increase of \$625,087 from the previous fiscal year.

FINANCIAL ANALYSIS OF THE AGENCY

Our analysis of the Agency begins on page 13 of the financial statements. One of the most important questions to ask about the Agency's finances is, "Whether the Agency, as a whole, is better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues,

Expenses, and Changes in Net Assets report information about the Agency's finances in a way that will help answer that question. Measuring the change in the Agency's net assets, the difference between assets and liabilities, is one way to measure financial health or financial position. Over time, increases or decreases in the Agency's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

**PUENTE BASIN WATER AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

Statements of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table A-1
Condensed Statements of Net Assets

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Fiscal Year 2017	Dollar Change
Assets:					
Cash & Investments	\$ 1,633,112	\$ 1,008,025	\$ 625,087	\$ 757,020	\$ 251,005
Accounts Receivable	3,837,490	3,102,215	735,275	2,947,441	154,774
Grant Receivable	1,876,000	27,518	1,848,482	27,518	0
Interest Receivable	154,637	156,980	(2,343)	154,004	2,976
Installment Purchase Receivable	32,285,000	33,195,000	(910,000)	34,065,000	(870,000)
Prepaid Water/Stored Water	6,080,786	6,861,294	(780,508)	7,541,476	(680,182)
Capital Assets	26,059,055	22,741,862	3,317,193	20,703,199	2,038,663
Total Assets	<u>71,926,080</u>	<u>67,092,894</u>	<u>4,833,186</u>	<u>66,195,658</u>	<u>897,236</u>
Liabilities:					
Accounts Payable	4,425,981	3,156,515	1,269,466	2,844,673	311,842
Interest Payable	150,030	153,635	(3,605)	154,004	(369)
Long-Term Debt	34,064,920	35,002,880	(937,960)	34,065,000	937,880
Total Liabilities	<u>38,640,931</u>	<u>38,313,030</u>	<u>327,901</u>	<u>37,063,677</u>	<u>1,249,353</u>
Net Assets:					
Net Investment in Capital Assets	24,279,136	20,933,982	3,345,154	20,703,199	230,783
Unrestricted	9,006,013	7,845,882	1,160,131	8,428,782	(582,900)
Total Net Assets	<u>\$33,285,149</u>	<u>\$28,779,864</u>	<u>\$4,505,285</u>	<u>\$29,131,981</u>	<u>\$(352,117)</u>

As seen from Table A-1, the Agency's net assets exceeded liabilities by \$33,285,149 and \$28,779,864 for the fiscal years ending June 30, 2019 and 2018, respectively.

By far, the largest component of net assets is the Agency's net investment in capital assets, which increased \$3,345,154 from the prior year. This increase was due primarily to the recognition of capital costs, attributable to the water supply reliability projects, which totaled \$3,694,146 for the year. As of June 30, 2019, the balance of the Construction in Progress account was \$5,835,394.

In 2018, the Agency's net investment in capital assets increased \$230,783 from the prior year. This increase was due to the recognition of capital costs, attributable to the water supply reliability project which totaled \$515,480 for the year. As of June 30, 2018, the balance of the Construction in Progress account was \$2,141,249.

In 2013, the Agency issued \$19,385,000 of 2012 Series A Water Revenue Bonds related to capital facilities of the RWD. In addition, the Agency issued \$17,300,000 related to capital

**PUENTE BASIN WATER AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

facilities of the WVWD. In accordance with the separate installment purchase agreements, each District is obligated to pay the interest and principal payments related to the bonds. To account for the debt and installment purchase agreement, a liability and corresponding asset has been recorded. As of June 30, 2019, the balance of the installment purchase receivable and related liability was \$32,285,000.

Statements of Revenues, Expenses, and Changes in Net Assets

Fiscal Year 2019 – Revenues and Expenses

For fiscal year 2019 the Agency had total operating revenues of \$16,491,773, an increase of \$389,169 from the prior year. The largest source of revenue for the year is member payments for water purchased from TVMWD. Beginning in 2014, water purchased by the WVWD and RWD from TVMWD is invoiced through the Agency. For the year, revenues collected for water purchased from TVMWD totaled \$15,173,416, an increase of \$430,738 from the prior year. In addition, the Cal Domestic project produced 1,481 acre-feet of water during the year. A total of \$1,010,002 was collected from the Districts to cover the costs related to the production of this water, a decrease of \$83,522 from prior year. Member assessments vary from year to year and represent payments received from the Districts to cover the other general and administrative costs incurred by the Agency. For the year, member assessments totaled \$220,965, an increase of \$25,543 over the prior year. During the year, the Agency leased water to three agencies amounting to \$67,500 in revenue. In addition, interest income and interest expense, related to the debt that was issued by the Agency and the corresponding installment purchase agreements, were recorded in the amount of \$1,491,971.

For fiscal year 2019, the Agency had total operating expenses of \$17,474,328, an increase of \$495,857 from the prior year. As discussed above, the most significant costs were attributable to the purchase and production of water, which totaled \$16,856,600 for the year, an increase of \$415,880 from the prior year.

Capital contributions for the year totaled \$5,542,628. Capital contributions included the money paid by each member agency and grant revenue for alternative water supply projects.

Fiscal Year 2018 – Revenues and Expenses

For fiscal year 2018 the Agency had total revenues of \$16,102,604, a decrease of \$5,735,162 from the prior year. The largest source of revenue for the year is member payments for water purchased from TVMWD. Beginning in 2014, water purchased by the WVWD and RWD from TVMWD is invoiced through the Agency. For the year, revenues collected for water purchased from TVMWD totaled \$14,742,678, a decrease of \$6,464,698 from the prior year. In addition, the Cal Domestic project produced 1,804 acre-feet of water during the year. A total of \$1,093,524 was collected from the Districts to cover the costs related to the production of this water, an increase of \$618,328 from prior year. Member assessments vary from year to year and represent payments received from the Districts to cover the other general and

**PUENTE BASIN WATER AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

administrative costs incurred by the Agency. For the year, member assessments totaled \$186,402, an increase of \$31,208 over the prior year. During the year, the Agency leased water to three agencies amounting to \$80,000 in revenue. In addition, interest income and interest expense, related to the debt that was issued by the Agency and the corresponding installment purchase agreements, were recorded in the amount of \$1,507,692.

For fiscal year 2018, the Agency had total operating expenses of \$16,978,471, a decrease of \$5,036,253 from the prior year. As discussed above, the most significant costs were attributable to the purchase and production of water, which totaled \$16,440,720 for the year, a decrease of \$5,299,545 from the prior year. Professional services for the year totaled \$79,511, an increase of \$12,147 from fiscal year 2017. This increase was expected, as the Agency incurred more costs for consultant fees related to government relations services.

Capital contributions for the year totaled \$515,480. Capital contributions included the money paid by each member agency for alternative water supply projects.

Table A-2
Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Fiscal Year 2017	Dollar Change
Revenues:					
Sale of Water (TVMWD)	\$ 15,173,416	\$ 14,742,678	\$ 430,738	\$ 21,207,376	\$ (6,464,698)
Sale of Water (Project)	1,010,002	1,093,524	(83,522)	475,196	618,328
Member Assessments	210,891	186,402	24,489	155,194	31,208
Other	97,464	80,000	17,464	-	80,000
Total Operating Revenues	16,491,773	16,102,604	389,169	21,837,766	(5,735,162)
Interest Income	1,491,971	1,515,962	(23,991)	1,387,763	128,199
Total Revenues	17,983,744	17,618,566	365,178	23,225,529	(5,606,963)
Expenses:					
Water Supply (TVMWD)	15,171,357	14,740,618	430,739	21,207,376	(6,466,758)
Water Supply (Project)	1,710,400	1,731,353	(20,953)	532,889	1,198,464
Legal	104,745	16,709	88,036	43,115	(26,406)
Accounting	9,040	7,802	1,238	7,650	152
Engineering	1,543	21,955	(20,412)	1,423	20,532
Administrative	42,774	42,493	281	35,642	6,851
Professional Services	57,516	79,511	(21,995)	67,364	12,147
Depreciation	376,953	318,030	58,923	119,265	198,765
Total Operating Expenses	17,474,328	16,958,471	515,857	22,014,724	(5,056,253)
Non-Operating: Interest Expense	1,546,759	1,507,692	39,067	1,387,763	119,929
Total Expenses	19,021,087	18,466,163	554,924	23,402,487	(4,936,324)
Net Income (Loss)	(1,037,343)	(847,597)	(189,746)	(176,958)	(670,639)
Capital Contributions	5,542,628	515,480	5,027,148	741,996	(226,516)
Changes in Net Assets	4,505,285	(332,117)	4,837,402	565,038	(897,155)
Net Assets, Beg. of Year	28,779,864	29,131,981	(352,117)	28,566,943	565,038
Net Assets, End of Year	\$ 33,285,149	\$ 28,799,864	\$ 4,485,285	\$ 29,131,981	\$ (332,117)

**PUENTE BASIN WATER AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

Capital Asset Administration

As of June 30, 2019, the Agency had invested \$26,059,055 in capital assets, an increase of \$3,317,193 from the prior fiscal year. These assets were comprised of construction in progress capital assets related to several alternative water supply projects.

Debt Administration

Table A-3
Long-Term Debt

	Fiscal Year 2019	Fiscal Year 2018	Dollar Change	Fiscal Year 2017	Dollar Change
Long Term Debt:					
2012 Series A Water Revenue Bonds (RWD Project)	\$ 17,395,000	\$ 17,840,000	\$ (445,000)	\$ 18,265,000	\$ (425,000)
2013 Series A Water Revenue Bonds (WVWD Project)	\$ 14,890,000	\$ 15,355,000	\$ (465,000)	\$ 15,800,000	\$ (445,000)
Capital Lease	\$ 1,779,919	\$ 1,807,880	\$ (27,961)	\$ -	\$ 1,807,880
Total Long-Term Debt	<u>\$ 34,064,919</u>	<u>\$ 35,002,880</u>	<u>\$ (937,961)</u>	<u>\$ 34,065,000</u>	<u>\$ 937,880</u>

Economic Factors and Next Year's Budget

Table A-4
Fiscal Year 2020 Budget vs. Fiscal Year 2019 Actual

	Budget 2020	Actual 2019	Dollar Change
Revenues:			
Sale of Water (TVMWD)	\$ 13,881,600	\$ 15,173,416	\$ (1,291,816)
Sale of Water (Project)	2,150,130	1,029,892	1,120,238
Member Assessments	283,040	210,891	72,149
Other	10,000	87,419	(77,419)
Total Operating Revenues	16,324,770	16,501,618	(176,848)
Use of Stored Water	1,614,350	780,508	833,842
Total	<u>\$ 17,939,120</u>	<u>\$ 17,282,126</u>	<u>\$ 656,994</u>
Expenses:			
Water Supply (TVMWD)	\$ 13,881,600	\$ 15,173,416	\$ (1,291,816)
Water Supply (Project)	3,646,480	1,710,400	1,936,080
Legal	100,000	104,745	(4,745)
Accounting	8,040	9,040	(1,000)
Engineering	5,000	1,543	3,457
Professional Service	125,000	57,516	67,484
Administrative Expenses	45,000	40,714	4,286
Lease Agreement - Old Baldy	103,000	100,000	3,000
Total Operating Expenses	<u>\$ 17,914,120</u>	<u>\$ 17,197,374</u>	<u>\$ 716,746</u>
Net Income	<u>\$ 25,000</u>	<u>\$ 84,752</u>	<u>\$ (59,752)</u>

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PUENTE BASIN WATER AGENCY
STATEMENT OF NET POSITION
June 30, 2019
(with comparative information for prior year)

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash and investments (note 2)	\$ 1,633,112	1,008,025
Accounts receivable		
WVWD	2,678,848	2,089,801
RWD	1,141,142	957,414
Other	17,500	55,000
Grants receivable	1,876,000	27,518
Interest receivable	154,637	156,980
Installment purchase receivable - current (note 3)	950,000	910,000
Stored water	<u>6,080,786</u>	<u>6,861,294</u>
TOTAL CURRENT ASSETS	<u>14,532,025</u>	<u>12,066,032</u>
CAPITAL ASSETS (note 4):		
Capital assets not being depreciated	16,238,348	12,544,202
Capital assets being depreciated	10,714,539	10,714,539
Less accumulated depreciation	<u>(893,832)</u>	<u>(516,879)</u>
TOTAL CAPITAL ASSETS	<u>26,059,055</u>	<u>22,741,862</u>
NON CURRENT ASSETS		
Installment purchase receivable - non current (note 3)	<u>31,335,000</u>	<u>32,285,000</u>
TOTAL NON CURRENT ASSETS	<u>31,335,000</u>	<u>32,285,000</u>
TOTAL ASSETS	<u>71,926,080</u>	<u>67,092,894</u>
CURRENT LIABILITIES:		
Accounts payable	4,425,981	3,156,515
Interest payable	150,030	153,635
Current portion of long-term debt (note 5)	<u>983,122</u>	<u>937,961</u>
TOTAL CURRENT LIABILITIES	<u>5,559,133</u>	<u>4,248,111</u>
LONG-TERM DEBT (note 5)	<u>33,081,798</u>	<u>34,064,919</u>
TOTAL LIABILITIES	<u>38,640,931</u>	<u>38,313,030</u>
NET POSITION:		
Net investment in capital assets	24,279,136	20,933,982
Unrestricted	<u>9,006,013</u>	<u>7,845,882</u>
TOTAL NET POSITION	<u>\$ 33,285,149</u>	<u>28,779,864</u>

PUENTE BASIN WATER AGENCY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
Year Ended June 30, 2019
(with comparative information for prior year)

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES:		
Sale of water to member agencies	\$ 16,176,013	15,827,182
Member assessments	220,965	195,422
Water leases	67,500	80,000
Other revenue	27,295	-
	<u>16,491,773</u>	<u>16,102,604</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENSES:		
Water supply	16,856,600	16,440,720
Legal	104,745	36,709
Accounting	9,040	7,802
Engineering	1,543	21,955
Administrative	42,774	42,493
Professional services	57,516	79,511
Other expenses	25,157	31,251
Depreciation	376,953	318,030
	<u>17,474,328</u>	<u>16,978,471</u>
TOTAL OPERATING EXPENSES		
OPERATING INCOME (LOSS)	<u>(982,555)</u>	<u>(875,867)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest revenue	1,491,971	1,515,962
Interest expense	<u>(1,546,759)</u>	<u>(1,507,692)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(54,788)</u>	<u>8,270</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,037,343)	(867,597)
CAPITAL CONTRIBUTIONS:		
Capital contributions from RWD	1,847,073	257,740
Capital contributions from WVWD	1,847,073	257,740
Capital contributions from grants	<u>1,848,482</u>	<u>-</u>
CHANGE IN NET POSITION	4,505,285	(352,117)
NET POSITION - BEGINNING OF YEAR	<u>28,779,864</u>	<u>29,131,981</u>
NET POSITION - END OF YEAR	<u>\$ 33,285,149</u>	<u>28,779,864</u>

PUENTE BASIN WATER AGENCY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2019
(with comparative information for prior year)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received for water sales	\$ 16,956,521	15,965,300
Receipts from members for operations	147,012	195,422
Water purchases	(16,856,600)	(15,760,538)
Payments to suppliers for other goods and services	(382,602)	(219,721)
Sale of water leases	<u>67,500</u>	<u>80,000</u>
NET CASH PROVIDED (USED)		
BY OPERATING ACTIVITIES	<u>(68,169)</u>	<u>260,463</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipts from members for capital activities	3,694,146	515,480
Payments for the acquisition of capital assets	<u>(3,016,880)</u>	<u>(529,863)</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>677,266</u>	<u>(14,383)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on cash and investments	<u>15,990</u>	<u>4,925</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>15,990</u>	<u>4,925</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,008,025</u>	<u>757,020</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,633,112</u>	<u>1,008,025</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	<u>\$ (982,555)</u>	<u>(875,867)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	376,953	318,030
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(735,275)	(154,774)
(Increase) decrease in prepaid water	-	91,801
(Increase) decrease in stored water	780,508	588,381
Increase (decrease) in accounts payable	<u>492,200</u>	<u>292,892</u>
Total adjustments	<u>914,386</u>	<u>1,136,330</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (68,169)</u>	<u>260,463</u>
Noncash investing, capital and financing activities:		
Member remittance of funds to bond service agent	<u>\$ 2,388,325</u>	<u>2,381,300</u>
Capital assets acquired with capital lease	<u>\$ -</u>	<u>1,841,214</u>

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PUENTE BASIN WATER AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Reporting Entity:

The Puente Basin Water Agency (the Agency) was created April 1, 1971 by the execution of a Joint Powers Agreement between Rowland Water District (RWD) and Walnut Valley Water District(WVWD). The Agreement was made pursuant to Article 1, Chapter 5, Division 7, Title 1 of the government code of the State of California. The Agency was organized for the purpose of protection and utilization of the local, imported, and reclaimed water supply within the Puente Basin. The Agency is governed by an appointed Board of Commissioners consisting of four members.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Puente Basin Water Agency and its component units, if any for which the Agency is considered to be financially accountable. Based upon the application of required criteria, there were no potential component units to be considered for inclusion in the Agency's reporting entity.

B. Description of Fund:

The accounts of the Agency are organized in a fund, which is considered a separate accounting entity. The operations of the fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The following fund type is used:

Proprietary Fund Type

Enterprise Fund is used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

C. Accounting and Reporting Policies:

The Agency has conformed to the pronouncements of the Governmental Accounting Standards Board (GASB), which are the primary authoritative statements of accounting principles generally accepted in the United States of America applicable to state and local governments.

PUENTE BASIN WATER AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting/Measurement Focus:

Proprietary fund types are accounted for using the "economic resources" measurement focus and accrual basis of accounting. This means that all assets and liabilities (whether current or concurrent) associated with the activity are included on the balance sheet. Their reported fund equity presents total net position. The operating statement of the proprietary funds presents increases (revenues) and decreases (expenses) in total net position. Revenues are recognized when they are earned, and expenses are recognized when the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency are water sales to members and member operating assessments. Operating expenses include the costs of legal, accounting, and engineering services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Cash and Cash Equivalents:

For purposes of the statement of cash flows, all cash and investments with an original maturity of 90 days or less are considered to be cash and cash equivalents.

F. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amount and disclosures. Accordingly, actual results could differ from those estimates.

G. Capital Assets:

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Contributed assets are recorded at estimated acquisition value at the date of contribution. 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.

PUENTE BASIN WATER AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Net Position:

In the Statement of Net Position, net position is classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position - This amount is all net positions that do not meet the definitions of "net investment in capital assets" or "restricted net position".

When both restricted and unrestricted resources are available for use, the Agency may use restricted resources or unrestricted resources based on the Board's discretion.

I. Prior Year Comparative Information:

Certain data has been presented for the prior year. Such data does not represent a complete presentation in accordance with generally accepted accounting principles but has been presented for comparative purposes only.

2. CASH AND INVESTMENTS

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

Deposits	\$ 912,197
Investments	720,915
Total cash and investments	<u>\$ 1,633,112</u>

Investments Authorized by the California Government Code

The table below identifies the investment types that are authorized for the Agency by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

PUENTE BASIN WATER AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

N/A - Not Applicable

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency'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 at fair value. The amount recorded in the State Investment Pool at June 30, 2019 is \$720,915. The Agency's investment in LAIF is considered to mature within twelve months or less and is not rated.

PUENTE BASIN WATER AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Agency's deposits with financial institutions are available on demand.

Custodial Credit Risk

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. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Agency's deposits are collateralized as required by California Law.

3. INSTALLMENT PURCHASE RECEIVABLE

The Agency entered into Installment Purchase Contracts with Rowland Water District ("RWD") and Walnut Valley Water District ("WVWD") related to the issuing of Bonds. RWD and WVWD received the proceeds of the Bonds and are required to make semiannual installment purchase payments that are equal in amount and timing to the principal and interest payments that are paid on a semiannual basis by the Agency to the holders of the Bonds. Total amounts required to be paid by RWD and WVWD as of June 30, 2019 are \$17,395,000 and \$14,890,000, respectively.

PUENTE BASIN WATER AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

4. CAPITAL ASSETS

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

	<u>Balance at July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at July 1, 2019</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 2,141,248	3,694,146	-	5,835,394
Water rights	10,402,954	-	-	10,402,954
Total capital assets, not being depreciated	<u>12,544,202</u>	<u>3,694,146</u>	<u>-</u>	<u>16,238,348</u>
Capital assets, being depreciated:				
Old Baldy well *	1,841,214	-	-	1,841,214
Pumping structure	8,873,325	-	-	8,873,325
Total capital assets, being depreciated	<u>10,714,539</u>	<u>-</u>	<u>-</u>	<u>10,714,539</u>
Less accumulated depreciation:				
*Old Baldy well	(29,458)	(88,379)	-	(117,837)
Pumping structure	(487,421)	(288,574)	-	(775,995)
Total accumulated depreciation	<u>(516,879)</u>	<u>(376,953)</u>	<u>-</u>	<u>(893,832)</u>
Total capital assets being depreciated, net	<u>10,197,660</u>	<u>(376,953)</u>	<u>-</u>	<u>9,820,707</u>
Total capital assets	<u>\$ 22,741,862</u>	<u>3,317,193</u>	<u>-</u>	<u>26,059,055</u>

*See note 5 for Capital Leases

5. LONG-TERM DEBT

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

	<u>Balance 7/1/2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2019</u>	<u>Due Within One Year</u>
2012 Series A Water Revenue Bonds (RWD Project)	\$ 17,840,000	-	(445,000)	17,395,000	460,000
2013 Series A Water Revenue Bonds (WVWD Project)	15,355,000	-	(465,000)	14,890,000	490,000
Capital Lease	1,807,880	-	(27,960)	1,779,920	33,122
Total long-term debt	<u>\$ 35,002,880</u>	<u>-</u>	<u>(937,960)</u>	<u>34,064,920</u>	<u>983,122</u>

PUENTE BASIN WATER AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM DEBT (Continued)

2012 Series A Water Revenue Bonds (Rowland Water District Project)

On November 1, 2012, the Agency issued \$19,385,000 of 2012 Series A Water Revenue Bonds. The Bonds will be used to finance certain capital facilities of RWD, a member agency. RWD is obligated under terms of the Installment Purchase Contract associated with the Bonds, to make semiannual installment purchase payments that are equal in amount and timing to the principal and interest payments that are paid on a semiannual basis by the Agency to the holders of the Bonds.

The Bonds were issued at a premium of \$1,570,182, which is being recorded and amortized over the life of the debt service by RWD, since RWD received the proceeds and premium. Interest and principal are payable on December 1st and June 1st of each year beginning June 1, 2013, with interest rates ranging from 1.0% to 5.0%. The Bonds are scheduled to mature on December 1, 2042. The rate covenants of the Bonds require that net revenues of RWD for each fiscal year be equal to at least 110% of the annual debt service payments required for that fiscal year.

2013 Series A Water Revenue Bonds (Walnut Valley Water District Project)

On March 1, 2013, the Agency issued \$17,300,000 of 2013 Series A Water Revenue Bonds. The Bonds will be used to finance certain capital facilities of WVWD, a member agency. WVWD is obligated under terms of the Installment Purchase Contract associated with the Bonds, to make semiannual installment purchase payments that are equal in amount and timing to the principal and interest payments that are paid on a semiannual basis by the Agency to the holders of the Bonds.

The Bonds were issued at a premium of \$2,695,738, which is being recorded and amortized over the life of the debt service by WVWD, since WVWD received the proceeds and premium. Interest is payable on June 1st and December 1st of each year beginning December 1, 2013, with interest rates ranging from 1.0% to 5.0%. Principal is due December 1st each year beginning December 1, 2013. The Bonds are scheduled to mature on December 1, 2038. The rate covenants of the Bonds require that net revenues of WVWD for each fiscal year be equal to at least 125% of the annual debt service payments required for that fiscal year.

PUENTE BASIN WATER AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM DEBT (Continued)

Future annual debt service requirements of the Agency are as follows:

Year Ending <u>June 30</u>	2012 Series A Water Revenue Bonds (Rowland Water District Project)		2013 Series A Water Revenue Bonds (Walnut Valley Water District Project)	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 460,000	694,700	490,000	744,500
2021	475,000	676,000	510,000	720,000
2022	495,000	656,600	535,000	694,500
2023	515,000	636,400	565,000	667,750
2024	540,000	615,300	595,000	639,500
2025-2029	3,005,000	2,757,625	3,435,000	2,722,000
2030-2034	3,515,000	2,252,031	4,390,000	1,772,250
2035-2039	4,205,000	1,563,844	4,370,000	559,500
2040-2043	<u>4,185,000</u>	<u>431,375</u>	<u>-</u>	<u>-</u>
Total payments	<u>\$ 17,395,000</u>	<u>10,283,875</u>	<u>14,890,000</u>	<u>8,520,000</u>

Capital Leases

On January 24, 2018 the Agency entered into a lease agreement for the use of a well. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the value of the future minimum lease payments as of the inception date in the amount of \$1,841,213. The lease is payable in semiannual payments of \$50,000, adjusted every July 1 for the Consumer Price Index for All Urban Consumers for the Los Angeles-Riverside-Orange County, California Area published by the Bureau of Labor Statistics for the preceding year, through July 31, 2039 at an annual interest rate of four percent.

PUENTE BASIN WATER AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM DEBT (Continued)

The future minimum lease obligations and the value of these minimum lease payments as of June 30, 2019 were as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 32,122	70,878
2021	36,540	69,550
2022	41,231	68,042
2023	46,207	66,344
2024	51,484	64,443
2025-2029	348,190	285,749
2030-2034	534,742	200,167
2035-2039	<u>689,404</u>	<u>72,251</u>
Total payments	<u>\$ 1,779,919</u>	<u>897,424</u>

6. NET POSITION

Changes in net position by member during the fiscal year ended June 30, 2019 was as follows:

	<u>Walnut Valley Water District</u>	<u>Rowland Water District</u>	<u>Total</u>
Net position June 30, 2018	\$ 14,389,932	14,389,932	28,779,864
Change in net position:			
Capital contributions	1,847,073	1,847,073	3,694,146
Share of joint venture gain before member capital contributions	<u>405,570</u>	<u>405,569</u>	<u>811,139</u>
Change in net position	<u>2,252,643</u>	<u>2,252,642</u>	<u>4,505,285</u>
Net position June 30, 2019	<u>\$ 16,642,575</u>	<u>16,642,574</u>	<u>33,285,149</u>

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SUPPLEMENTARY INFORMATION

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PUENTE BASIN WATER AGENCY
SUPPLEMENTARY INFORMATION

June 30, 2019

PUENTE NARROWS AGREEMENT

On May 8, 1972, Puente Basin Water Agency and Upper San Gabriel Valley Municipal Water executed the Puente Narrows Agreement (the Agreement), which established the base water underflow from the Puente Basin to the Main San Gabriel Basin at 580 acre-feet per year. The Agreement requires Puente Basin Water Agency to make up payments in the following year where accumulated subsurface outflow falls below the accumulated base underflow. The Agency receives a credit for an excess of underflow over the base underflow. These credits can be applied only against deficiencies of underflow should such deficiencies occur in the future.

Puente Basin Water Agency had credits for excess of underflow of 13,336 acre-feet at June 30, 2019. The value of these credits have not been reflected in the accompanying financial statements because the likelihood of these credits being applied to material amounts of future deficiencies of underflow is extremely remote and the credits cannot be used for any other purpose. The administration of the Agreement is currently responsible for well measurement.

ADJUDICATION OF PUENTE BASIN WATER RIGHTS

The Puente Basin Watermaster allocates water rights among water producers in the Puente Basin. Water rights of 425 acre-feet were allocated to both Rowland Water District and Walnut Valley Water District. These amounts represent approximately 40 percent of the water rights available in the Puente Basin. The judgment allows some over and under allocation adjustments depending on water flow in the basin, limited carryover provisions, and credit for return water.

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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 Auditor's Report

Board of Commissioners
Puente Basin Water Agency
Walnut, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Puente Basin Water Agency ("Agency"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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

Board of Commissioners
Puente Basin Water Agency
Page Two

could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Davis Fan UP". The signature is written in a cursive, flowing style.

Irvine, California
November 8, 2019