Puente Basin Water Agency

Annual Financial Report

For the Fiscal Year Ended June 30, 2020

Our Focus

"Achieving a sustainable and reliable local water supply through innovative planning and regionally-beneficial projects"

Puente Basin Water Agency

Board of Commissioners as of June 30, 2020

Name	Title	Member Agency	Elected*/ Appointed
Robert W. Lewis	Chair	Rowland Water District	Appointed
Theresa Lee	Vice-Chair	Walnut Valley Water District	Appointed
Anthony J. Lima	Commissioner	Rowland Water District	Appointed
Scarlett P. Kwong	Commissioner	Walnut Valley Water District	Appointed

* Members are elected based on member agency decisions.

Puente Basin Water Agency
Erik Hitchman, Administrative Officer
271 S. Brea Canyon Road
Walnut, California 91789
(909) 595-1268 – www.puentebasin.com

Puente Basin Water Agency

Annual Financial Report

For the Fiscal Year Ended June 30, 2020

Puente Basin Water Agency
Annual Financial Report
For the Fiscal Year Ended June 30, 2020

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Financial Section

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Independent Auditor's Report

Board of Commissioners
Puente Basin Water Agency
Rowland Heights, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Puente Basin Water Agency (Agency), which comprises the statement of net position as of June 30, 2020, and the related statement of revenues, expenses, and changes in net position for the year then ended, 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; and the State Controller's Minimum Audit Requirements for California Special Districts. 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.

Independent Auditor's Report, continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Puente Basin Water Agency as of June 30, 2020, and the respective changes in net position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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 audits 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020, 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. This report can be found on pages 30 and 31.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 10, 2020

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Puente Basin Water Agency (Agency) provides an introduction to the financial statements of the Agency for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

Fiscal Year 2020

- The Agency's net position as of June 30, 2020 were $33,961,250, an increase of $676,101, or 20.3% over the prior year.
- Operating revenues totaled $17,332,577 for the year, an increase of $840,804 from the prior year.
- Beginning in July 2014, in order to 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 Three Valleys Municipal Water District (TVMWD) was invoiced through the Agency. For fiscal year 2020, the total of these pass-through costs was $16,223,060 and is reflected in both the revenues and expenses of the Agency.
- Operating expenses for the year totaled $18,186,609 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 $4,883, were incurred related to the maintenance and management of the project facilities.
- During the year, the Cal Domestic Project water reliability project produced 1,112 acre-feet of water. The costs related to the production of this water totaled $1,348,636 for the year. These costs included the use of stored water in the amount of $585,840, that was purchased and paid for in prior years.
- The Agency recorded an additional $284,947 and $1,221,576 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-process account.
- The Agency entered 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 $1,747,797.

Fiscal Year 2019

- The Agency's position 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 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.

Financial Highlights, continued

Fiscal Year 2019, continued

- 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 $780,508 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-process 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.

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

The Statement of Net Position presents the Agency's financial position (assets, deferred outflows of resources, liabilities, and deferred inflows of resources) as of June 30, 2020 and 2019. The Statement of Net Position includes all 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, 2020 and 2019, assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by $33,961,250 and $33,285,149, respectively.

Statement of Revenues, Expenses & Changes in Net Position

All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Agency's operations and can be used to determine whether the Agency has successfully 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 position for the years ending June 30, 2020 and 2019, was $676,101 and $4,505,285, respectively.

Required Financial Statements, continued

<u>Statement of Cash Flows</u>

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, 2020, cash and cash equivalents totaled $2,516,036 an increase of $882,924 from the previous fiscal year.

Financial Analysis of the Agency

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 Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Agency's finances in a way that will help answer that question. Measuring the change in the Agency's *net position*, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources, is one way to measure financial health or financial position. Over time, increases or decreases in the Agency's net position 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.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 14 through 29.

Statements of Net Position

Condensed Statements of Net Position

	2020	2019	Change	2018	Change
Assets:					
Cash & investments	$ 2,516,036	1,633,112	882,924	1,008,025	625,087
Interest receivable	145,688	154,637	(8,949)	156,980	(2,343)
Accounts receivable	4,170,761	3,837,490	333,271	3,102,215	735,275
Grant receivable	836,965	1,876,000	(1,039,035)	27,518	1,848,482
Prepaid expenses	6,000	-	6,000	-	-
Prepaid water/stored water	5,949,147	6,080,786	(131,639)	6,861,294	(780,508)
Installment purchase receivable	31,335,000	32,285,000	(950,000)	33,195,000	(910,000)
Capital assets, net	27,188,627	26,059,054	1,129,573	22,741,862	3,317,192
Total assets	72,148,224	71,926,079	222,145	67,092,894	4,833,185
Liabilities:					
Accounts payable	4,952,489	4,425,982	526,507	3,156,515	1,269,467
Unearned revenue	6,000	-	6,000	-	-
Interest payable	145,688	150,029	(4,341)	153,635	(3,606)
Long-term debt	33,082,797	34,064,919	(982,122)	35,002,880	(937,961)
Total liabilities	38,186,974	38,640,930	(453,956)	38,313,030	327,900
Net position:					
Net investment in capital assets	25,440,830	24,279,135	1,161,695	20,933,982	3,345,153
Unrestricted	8,520,420	9,006,014	(485,594)	7,845,882	1,160,132
Total net position	$ 33,961,250	33,285,149	676,101	28,779,864	4,505,285

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As seen from the table above, the Agency's net position exceeded liabilities by $33,961,250 and $33,285,149 for the fiscal years ending June 30, 2020 and 2019, respectively.

By far, the largest component of net position is the Agency's net investment in capital assets, which increased $1,129,573 from the prior year. This increase was due primarily to the recognition of capital costs, attributable to the water supply reliability projects. As of June 30, 2020, the balance of construction-in-process was $5,060,845.

In 2019, the Agency's net investment in capital assets increased $3,317,192 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-process account was $5,835,394.

In 2013, the Agency issued $19,385,000 of 2012 Series A Water Revenue Bonds related to capital facilities of RWD. In addition, the Agency issued $17,300,000 related to capital facilities of 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, 2020, the balance of the installment purchase receivable and related liability was $31,335,000.

Puente Basin Water Agency
Management's Discussion and Analysis, continued
For the Fiscal Year Ended June 30, 2020
With comparative amounts for June 30, 2019

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2020	2019	Change	2018	Change
Operating revenues:					
Sale of water (TVMWD)	$ 16,233,060	15,173,416	1,059,644	14,742,678	430,738
Sale of water (Project)	890,300	1,010,002	(119,702)	1,093,524	(83,522)
Member assessments	179,884	210,891	(31,007)	186,402	24,489
Other revenue	29,333	97,464	(68,131)	80,000	17,464
Total operating revenues	17,332,577	16,491,773	840,804	16,102,604	389,169
Non-operating revenues:					
Interest income	1,467,411	1,491,971	(24,560)	1,515,962	(23,991)
Total non-operating revenues	1,467,411	1,491,971	(24,560)	1,515,962	(23,991)
Total revenues	18,799,988	17,983,744	816,244	17,618,566	365,178
Operating expenses:					
Water supply (TVMWD)	16,231,000	15,171,357	1,059,643	14,742,678	428,679
Water supply (Project)	1,353,519	1,710,400	(356,881)	1,731,353	(20,953)
Engineering	1,396	1,543	(147)	21,955	(20,412)
Professional services	117,848	57,516	60,332	79,511	(21,995)
Legal	56,798	104,745	(47,947)	36,709	68,036
Administrative	40,008	42,774	(2,766)	40,433	2,341
Accounting	9,090	9,040	50	7,802	1,238
Depreciation	376,950	376,953	(3)	318,030	58,923
Total operating expenses	18,186,609	17,474,328	712,281	16,978,471	495,857
Non-operating expenses:					
Interest expense	1,505,936	1,546,758	(40,822)	1,507,692	39,066
Total non-operating expenses	1,505,936	1,546,758	(40,822)	1,507,692	39,066
Total expenses	19,692,545	19,021,086	671,459	18,486,163	534,923
Net loss before capital contributions	(892,557)	(1,037,342)	144,785	(867,597)	(169,745)
Capital contributions	1,568,658	5,542,627	(3,973,969)	515,480	5,027,147
Changes in net position	676,101	4,505,285	(3,829,184)	(352,117)	4,857,402
Net position, beginning of year	33,285,149	28,779,864	4,505,285	29,131,981	(352,117)
Net position, end of year	$ 33,961,250	33,285,149	676,101	28,779,864	4,505,285

Statements of Revenues, Expenses and Changes in Net Position, continued

Fiscal Year 2020 – Revenues and Expenses

For fiscal year 2020, the Agency had total operating revenues of $17,332,577, an increase of $840,804 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 $16,233,060, an increase of $1,059,644 from the prior year. In addition, the Cal Domestic project produced 1,112 acre-feet of water during the year. A total of $890,300 was collected from the Districts to cover the costs related to the production of this water, a decrease of $119,702 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 $179,884, a decrease of $31,007 over the prior year. 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 $1,467,411.

For fiscal year 2020, the Agency had total operating expenses of $18,186,609, an increase of $712,281 from the prior year. As discussed above, the most significant costs were attributable to the purchase and production of water, which totaled $17,584,519 for the year, an increase of $727,519 from the prior year.

Capital contributions for the year totaled $1,568,658. Capital contributions included the money paid by each member agency and grant revenue for alternative water supply projects.

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 $210,891, an increase of $24,489 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.

Capital Asset Administration

As of June 30, 2020, the Agency had invested $27,188,627 in capital assets, an increase of $1,129,572 from the prior fiscal year. These assets were comprised of construction-in-process capital assets related to several alternative water supply projects.

Debt Administration

		2020	2019	Change	2018	Change
Long-term debt:						
2012 Series A Water Revenue Bonds (RWD Project)	$	16,935,000	17,395,000	(460,000)	17,840,000	(445,000)
2013 Series A Water Revenue Bonds (WVWD Project)		14,400,000	14,890,000	(490,000)	15,355,000	(465,000)
Capital lease payable		1,747,797	1,779,919	(32,122)	1,807,880	(27,961)
Total	$	33,082,797	34,064,919	(982,122)	35,002,880	(937,961)

Economic Factors and Next Year's Budget

		Budget 2021	Actual 2020	Change
Revenues:				
Sale of water (TVMWD)	$	13,712,790	16,233,060	(2,520,270)
Sale of water (Project)		1,202,620	890,300	312,320
Member assessments		251,375	179,884	71,491
Other		42,000	50,399	(8,399)
Total operating revenues		15,208,785	17,353,643	(2,144,858)
Use of stored water		822,470	585,840	236,630
Total revenues		16,031,255	17,939,483	(1,908,228)
Expenses:				
Water supply (TVMWD)		13,712,790	16,233,060	(2,520,270)
Water supply (Project)		2,017,590	1,456,719	560,871
Engineering		5,000	1,396	3,604
Professional services		125,000	117,848	7,152
Legal		100,000	56,798	43,202
Administrative		45,000	37,948	7,052
Accounting		8,375	9,090	(715)
Total operating expenses		16,013,755	17,912,859	(1,899,104)
Net income	$	17,500	26,624	(9,124)

Conditions Affecting Current Financial Position

The COVID-19 pandemic in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the Agency and the duration cannot be estimated at this time.

Conditions Affecting Current Financial Position, continued

Management is unaware of any other conditions, which could have a significant impact on the Agency's current financial position, net position or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the Agency's present users, including funding sources, customers, stakeholders and other interested parties with a general overview of the Agency's finances and to demonstrate the Agency's accountability with an overview of the Agency'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 Agency's Treasurer, Brian Teuber, 271 S. Brea Canyon Road, Walnut, California, 91789 or (909) 595-1268.

Basic Financial Statements

Puente Basin Water Agency
Statement of Net Position
June 30, 2020

		2020
Current assets:		
Cash and cash equivalents (note 2)	$	2,516,036
Accrued interest receivable		145,688
Accounts receivable		5,007,726
Prepaid expenses		6,000
Water-in-storage inventory		5,949,147
Long-term assets – due in one year:		
Installment purchase receivable (note 3)		985,000
Total current assets		14,609,597
Non-current assets:		
Long-term assets – due after one year:		
Installment purchase receivable (note 3)		30,350,000
Capital assets – not being depreciated (note 4)		15,463,799
Capital assets – being depreciated, net (note 4)		11,724,828
Total non-current assets		57,538,627
Total assets		72,148,224
Current liabilities:		
Accounts payable and accrued expenses		4,952,489
Unearned revenue		6,000
Accrued interest payable		145,688
Long-term liabilities – due in one year:		
Bond payable (note 5)		985,000
Capital lease payable (note 5)		36,540
Total current liabilities		6,125,717
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Bond payable (note 5)		30,350,000
Capital lease payable (note 5)		1,711,257
Total non-current liabilities		32,061,257
Total liabilities		38,186,974
Net position (note 6)**:**		
Net investment in capital assets		25,440,830
Unrestricted		8,520,420
Total net position	$	33,961,250

See accompanying notes to the basic financial statements

Puente Basin Water Agency
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2020

		2020
Operating revenues:		
Sale of water to member agencies	$	17,117,801
Member assessments		214,776
Total operating revenues		17,332,577
Operating expenses:		
Water supply		17,560,037
Engineering		1,396
Professional services		117,848
Legal		56,798
Administrative		40,008
Accounting		9,090
Other		24,482
Total operating expenses		17,809,659
Operating loss before depreciation expense		(477,082)
Depreciation expense		(376,950)
Operating loss		(854,032)
Non-operating revenue(expense):		
Investment income		1,467,411
Interest expense – long-term debt		(1,505,936)
Total non-operating revenue(expense), net		(38,525)
Net loss before capital contributions		(892,557)
Capital contributions:		
Capital contributions – state		650,954
Capital contributions – member agency assessments		463,504
Contributions – stored water purchases from member agencies		454,200
Total capital contributions		1,568,658
Changes in net position		676,101
Net position, beginning of the year		33,285,149
Net position, end of year	$	33,961,250

See accompanying notes to the basic financial statements

Puente Basin Water Agency
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

		2020
Cash flows from operating activities:		
Cash received for water sales and assessments	$	18,048,949
Cash paid to vendors and suppliers for materials and services		(17,157,513)
Net cash provided by operating activities		891,436
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(1,506,523)
Capital contributions		917,704
Payments received for loans receivable		950,000
Proceeds from capital grants		650,954
Principal paid on long-term debt		(982,122)
Interest paid on debt		(1,510,277)
Net cash used in capital and related financing activities		(1,480,264)
Cash flows from investing activities:		
Interest and investment earnings		1,471,752
Net cash provided by investing activities		1,471,752
Net increase in cash and cash equivalents		882,924
Cash and cash equivalents, beginning of year		1,633,112
Cash and cash equivalents, end of year	$	2,516,036
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(854,032)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense		376,950
(Increase)Decrease in assets:		
Accounts receivable		710,372
Prepaid expenses and other deposits		(6,000)
Inventory – water		131,639
Increase in liabilities:		
Accounts payable and accrued expenses		526,507
Unearned revenue		6,000
Total adjustments		1,745,468
Net cash provided by operating activities	$	891,436

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the 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's purpose is to achieve a sustainable and reliable local water supply through innovative planning and the development of regionally-beneficial projects 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.

B. Basis of Accounting and Measurement Focus

The Agency 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 Agency is that the cost of providing water to its member agencies on a continuing basis be financed or recovered primarily through water sales, capital contributions and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal value. 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.

C. Financial Reporting

The Agency's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Agency's proprietary fund.

The Agency has adopted the following GASB pronouncements in the current year:

In May 2020, the GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

2. Uncertainty

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on Agency and the duration cannot be estimated at this time.

3. Cash and Cash Equivalents

Substantially all of the Agency's cash is invested in interest bearing accounts. The Agency considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

4. Investments and Investment Policy

The Agency's investment policy authorizes investments in certificates-of-deposit and the California Local Agency Investment Fund (LAIF). The Agency's investment policy does contain specific provisions intended to limit its exposure to interest rate risk, credit risk, custodial risk, and concentration of credit risk.

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.

5. Fair Value Measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

6. Accounts Receivable and Allowance for Uncollectible Accounts

The Agency extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the Agency uses the allowance method for the reservation and write-off of those accounts. As of June 30, 2020, there is no allowance for uncollectible accounts as management believes all accounts will be collected.

7. Water-In-Storage Inventory

Water-in-storage inventory consists primarily of water purchased, contributed, and held in storage with the Main San Gabriel Basin Watermaster, the Agency's water wholesaler. In 2020, the Agency received 600 acre-feet of water through Three Valleys Municipal Water District. The water was purchased by Rowland Water District and Walnut Valley Water District and is held in storage with the Main San Gabriel Basin Watermaster. As of June 30, 2020, the Agency had a total of 10,166 acre-feet of water-in-storage valued using an average cost of $585 per acre-foot.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

8. Prepaid Expenses

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

9. 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. Donated assets are recorded at acquisition value at the date of the donation. Capital assets received in service concession arrangements are reported at acquisition value. 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:

- Water mains – 60 years
- Pipelines and improvements – 20 years

10. Unearned Revenue

Unearned revenue consists of cash received prior to services being performed. A liability will be recognized on the financial statements until the services are rendered and completed.

11. Net Position

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – Consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments, or constraints imposed by law through enabling legislation.
- **Unrestricted** – Consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

12. Water Sales and Services

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

13. Capital Contributions

Capital contributions represent cash contributed to the Agency by member agencies and by the State.

14. Budgetary Policies

The Agency 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.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

15. Reclassification

The Agency has reclassified certain prior year information to conform to current year presentations.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30 consist of the following:

		2020
Cash and investments		
Deposits with financial institutions	$	166,496
Deposits in Local Agency Investment Fund (LAIF)		2,349,540
Total cash and investments	$	2,516,036

As of June 30, the Agency's authorized deposits had the following maturities:

	2020
Deposits in Local Agency Investment Fund (LAIF)	191 days

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations - CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Collateralize Bank Deposits	5 years	None	None
Corporate debt - Short and Long Term	5 years	None	None
Commercial Paper - Pooled Funds	270 days	40% of the District's money	10%
Commercial Paper - Non-Pooled Funds	270 days		
Repurchase agreements	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

(2) Cash and Cash Equivalents, continued

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 and is under the management of the Treasurer of the State of California with oversight provided by the Local Agency Investment Advisory Board. 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 on an amortized cost basis. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the Agency's deposits with the bank in accordance with the Code.

The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

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.

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).

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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to $250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Agency's name.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. 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 matures, or comes close to maturity evenly over time, as necessary to provide requirements for cash flow and liquidity needed for operations.

(2) Cash and Cash Equivalents, continued

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The Agency'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. The Agency's deposit portfolio with governmental agencies, LAIF, is 93% as of June 30, 2020 of the Agency's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the Agency's total investments.

(3) Installment Purchase Receivable

The Agency entered into an 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 semi-annual installment purchase payments that are equal in amount and timing to the principal and interest payments that are paid on a semi-annual basis by the Agency to the holders of the Bonds. The current portions to be paid by RWD and WVWD as of June 30, 2020, are $475,000 and $510,000, respectively, while the total amounts required to be paid by RWD and WVWD as of June 30, 2020, are $16,935,000 and $14,400,000, respectively. Please also see note 5 for further detail.

(4) Capital Assets

Changes in capital assets for the year ended June 30, 2020, are as follows:

	Balance 2019	Additions/ Transfers	Deletions/ Transfers	Balance 2020
Non-depreciable assets:				
Water rights	$ 10,402,954	-	-	10,402,954
Construction-in-process	5,835,394	1,506,523	(2,281,072)	5,060,845
Total non-depreciable assets	16,238,348	1,506,523	(2,281,072)	15,463,799
Depreciable assets:				
Old Baldy well	1,841,213	-	-	1,841,213
Pumping plant and equipment	8,873,325	2,281,072	-	11,154,397
Total depreciable assets	10,714,538	2,281,072	-	12,995,610
Accumulated depreciation:				
Old Baldy well	(117,837)	(88,378)	-	(206,215)
Pumping plant and equipment	(775,995)	(288,572)	-	(1,064,567)
Total accumulated depreciation	(893,832)	(376,950)	-	(1,270,782)
Total depreciable assets, net	9,820,706	1,904,122	-	11,724,828
Total capital assets, net	$ 26,059,054	3,410,645	(2,281,072)	27,188,627

For the fiscal year ending June 30, 2020, the Agency transferred $2,281,072 of construction-in-process to pumping plant and equipment.

(4) Capital Assets, continued

Construction-in-Process

The Agency has been involved in various construction projects throughout the year. The projects that comprise the construction-in-process balances at June 30, 2020, are as follows:

		2020
20" Water Transmission Main Project	$	36,736
Six Basins Groundwater Project		5,024,109
Contruction-in-process	$	5,060,845

(5) Long-Term Debt

Changes in long-term debt for the year ended June 30, 2020, are as follows:

	Balance 2019	Additions	Payments/ Retirements	Balance 2020	Current Portion	Long-term Portion
Bonds payable:						
2012 Series A Water Revenue Bonds:						
Rowland Water District	$ 17,395,000	-	(460,000)	16,935,000	475,000	16,460,000
2013 Series A Water Revenue Bonds:						
Walnut Valley Water District	14,890,000	-	(490,000)	14,400,000	510,000	13,890,000
Total bonds payable	32,285,000	-	(950,000)	31,335,000	985,000	30,350,000
Capital lease payable	1,779,919	-	(32,122)	1,747,797	36,540	1,711,257
Total	$ 34,064,919	-	(982,122)	33,082,797	1,021,540	32,061,257

2012 Series A Water Revenue Bonds – Rowland Water District

On November 1, 2012, the Agency issued $19,835,000 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% to 5%. 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.

(5) Long-Term Debt, continued

2012 Series A Water Revenue Bonds – Rowland Water District, continued

Future annual debt service payments are as follows:

Year		Principal	Interest	Total
2021	$	475,000	685,500	1,160,500
2022		495,000	666,500	1,161,500
2023		515,000	646,700	1,161,700
2024		540,000	626,100	1,166,100
2025		560,000	604,500	1,164,500
2026-2030		3,105,000	2,706,850	5,811,850
2031-2035		3,630,000	2,197,025	5,827,025
2036-2040		4,400,000	1,472,000	5,872,000
2041-2043		3,215,000	326,750	3,541,750
Total		16,935,000	9,931,925	26,866,925
Current		(475,000)		
Non-current	$	16,460,000		

2013 Series A Water Revenue Bonds – Walnut Valley Water District

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% to 5%. 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.

(5) Long-Term Debt, continued

2013 Series A Water Revenue Bonds – Walnut Valley Water District, continued

Future annual debt service payments are as follows:

Year		Principal	Interest	Total
2021	$	510,000	720,000	1,230,000
2022		535,000	694,500	1,229,500
2023		565,000	667,750	1,232,750
2024		595,000	639,500	1,234,500
2025		620,000	609,750	1,229,750
2026-2030		3,610,000	2,550,250	6,160,250
2031-2035		4,610,000	1,552,750	6,162,750
2036-2040		3,355,000	341,000	3,696,000
Total		14,400,000	7,775,500	22,175,500
Current		(510,000)		
Non-current	$	13,890,000		

Capital Lease

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 semi-annual 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 4%.

Future annual lease payments are as follows:

Year		Principal	Interest	Total
2021	$	36,540	69,550	106,090
2022		41,231	68,042	109,273
2023		46,207	66,344	112,551
2024		51,484	64,443	115,927
2025		57,076	62,329	119,405
2026-2030		381,466	271,491	652,957
2031-2035		578,613	178,343	756,956
2036-2039		555,180	46,004	601,184
Total		1,747,797	826,546	2,574,343
Current		(36,540)		
Non-current	$	1,711,257		

(6) Net Position

Calculation of net position as of June 30, were as follows:

		2020
Net investment in capital assets:		
Capital assets, net	$	27,188,627
Capital lease, current		(36,540)
Captial lease, non-current		(1,711,257)
Total investment in capital assets		25,440,830
Unrestricted net position		8,520,420
Total net position	$	33,961,250

(7) Risk Management

The Agency 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 Agency 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.

On June 30, 2020, the Agency participated in the ACWA/JPIA pooled programs for liability, property, and workers' compensation programs as follows:

- General and auto liability, public officials and employees' errors and omissions: The ACWA/JPIAs total risk financing self-insurance limits of $5,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers: $55 million for general, auto and public officials' liability, which increases the limits on the insurance coverage noted above.

In addition, the Agency also has the following insurance coverage:

- Crime coverage up to $1,000,000 per loss includes public employee dishonesty, depositor's forgery or alteration, theft, computer, and funds transfer fraud coverages. subject to $1,000 deductible per loss.
- 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 loss, subject to a $2,500 deductible per loss. Mobile equipment and vehicles, on file, are paid on actual cost value basis at time of loss and subject to $1,000 deductible per loss.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to various deductibles depending on the type of equipment, on file.
- Workers' compensation coverage up to California statutory limits for all work-related injuries/illnesses covered by California law; a pooled self-insured limit of $2,000,000. The ACWA/JPIA purchased additional excess coverage layer: $2,000,000 employer's liability.

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 Agency's insurance coverage during the fiscal years ended June 30, 2020, 2019 and 2018. 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 was no IBNR claims payable as of June 30, 2020, 2019 and 2018.

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2020, that have effective dates that may impact future financial presentations.

The following pronouncement implementation dates have been delayed due to the COVID-19 pandemic.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

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

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 89, continued

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

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

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

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

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 92

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR.

This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

(9) Commitments and Contingencies

Grant Awards

Grant funds received by the Agency are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Agency believes that such disallowances, if any, would not be significant.

Construction Contracts

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

Litigation

In the ordinary course of operations, the Agency is subject to claims and litigation from outside parties. After consultation with legal counsel, the Agency believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Agency could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The Agency has not included any contingencies in the financial statements specific to this issue.

(10) Subsequent Events

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of December 10, 2020, which is the date the financial statements were available to be issued.

Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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 fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the Agency's basic financial statements, and have issued our report thereon dated December 10, 2020.

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 opinion 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 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*.

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards, (continued)*

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.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 10, 2020