



Puente Basin Water Agency

Annual Financial Report

For the Fiscal Years Ended June 30, 2022 and 2021

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, 2022**

<u>Name</u>	<u>Title</u>	<u>Member Agency</u>	<u>Elected*/ Appointed</u>
Anthony J. Lima	Chair	Rowland Water District	Appointed
Theresa Lee	Vice-Chair	Walnut Valley Water District	Appointed
Robert W. Lewis	Commissioner	Rowland Water District	Appointed
Jerry Tang	Commissioner	Walnut Valley Water District	Appointed

* Members are elected based on member agency decisions.

**Puente Basin Water Agency
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Puente Basin Water Agency

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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 years ended, June 30, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position for the years 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, as of June 30, 2022 and 2021, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Independent Auditor's Report, continued

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Independent Auditor's Report, continued

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 4 through 11 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 8, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Agency's internal control over financial reporting and compliance. This report can be found on pages 32 and 33.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 8, 2022

Puente Basin Water Agency
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2022 and 2021

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 years ended June 30, 2022 and 2021. 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 2022

- The Agency's net position as of June 30, 2022, was \$41,463,844, a decrease of \$10,336, or 0.02% from the prior year.
- Operating revenues totaled \$19,176,682 for the year, an increase of \$656,981 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, which are 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 2022, the total of these pass-through costs were reflected in both the revenues amounting to \$18,324,933 and expenses amounting to \$18,322,873 of the Agency.
- Operating expenses including depreciation for the year totaled \$19,752,966 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 of \$9,989, were incurred related to the maintenance and management of the project facilities.
- During the year, the Cal Domestic water reliability project produced 595 acre-feet of water. The costs related to the production of water totaled \$915,016 for the year. These costs included the use of stored water in the amount of \$332,909, that was purchased and paid for in prior years.
- In 2022, the Agency recorded an additional \$153,677 and \$918,758 in construction costs related to the Pathfinder Intertie and Pomona Basin projects respectively, which were completed and are currently being constructed, respectively. These construction costs are reflected in the Agency's construction-in-process account. As of June 30, 2022, the Pathfinder Intertie project was completed and capitalized. As of June 30, 2022, the ending balance of the Pomona Basin project totaled \$6,852,265.
- In 2018, the Agency entered a 20-year lease with the City of La Verne for land and a well site, which was recorded as a capital lease. As of June 30, 2022, the value of the lease liability is recorded at the value of the future minimum lease payments in the amount of \$1,670,026.

Fiscal Year 2021

- The Agency's net position as of June 30, 2021, was \$41,474,180, an increase of \$7,512,930, or 22.12% from the prior year.
- Operating revenues totaled \$18,519,701 for the year, an increase of \$1,187,124 from the prior year.

**Puente Basin Water Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2022 and 2021**

Financial Highlights, continued

Fiscal Year 2021, continued

- Beginning in July 2014, in order to account for the costs and benefits of water produced from the water reliability projects, which are 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 2021, the total of these pass-through costs were reflected in both the revenues amounting to \$17,211,751 and expenses amounting to \$17,209,691 of the Agency.
- Operating expenses including depreciation for the year totaled \$19,260,642 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 of \$2,480, were incurred related to the maintenance and management of the project facilities.
- During the year, the Cal Domestic water reliability project produced 1,105 acre-feet of water. The costs related to the production of water totaled \$1,432,682 for the year. These costs included the use of stored water in the amount of \$586,881, that was purchased and paid for in prior years.
- In 2021, the Agency's construction cost addition's related to the Pathfinder Intertie and Pomona Basin projects were \$668,594 and \$909,398, respectively. These construction costs are reflected in the Agency's construction-in-process account. As of June 30, 2021, the ending balance of the Pathfinder Intertie and Pomona Basin projects totaled \$705,330 and \$5,933,507, respectively.
- In 2018, the Agency entered a 20-year lease with the City of La Verne for land and a well site, which was recorded as a capital lease. As of June 30, 2021, the value of the lease liability is recorded at the value of the future minimum lease payments in the amount of \$1,711,257.

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 Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and the Statements 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.

Statements of Net Position

The Statements of Net Position present the Agency's financial position (assets, deferred outflows of resources, liabilities, and deferred inflows of resources) as of June 30, 2022 and 2021. The Statements of Net Position include all the Agency's investments in resources (assets) and the obligations to creditors (liabilities). They also provide the basis for evaluating the capital structure of the Agency and assessing the liquidity and financial flexibility of the Agency. As of June 30, 2022 and 2021, assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$41,463,844 and \$41,474,180, respectively.

**Puente Basin Water Agency
Management’s Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2022 and 2021**

Required Financial Statements, continued

Statements of Revenues, Expenses & Changes in Net Position

All the current year’s revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure 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 changes in net position for the years ending June 30, 2022 and 2021, were \$10,336 and \$7,512,930, respectively.

Statements of Cash Flows

The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Agency’s cash receipts and cash payments during the fiscal year. The statements report 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 cash came from, what was cash used for, and what was the change in cash balance during the year.

As of June 30, 2022, cash and cash equivalents totaled \$1,123,038, a decrease of \$460,448 from the previous fiscal year. As of June 30, 2021, cash and cash equivalents totaled \$1,583,486, a decrease of \$932,550 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 Statements of Net Position and the Statements 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, one 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 15 through 31.

**Puente Basin Water Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2022 and 2021**

Statements of Net Position

Condensed Statements of Net Position

	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>2020</u>	<u>Change</u>
Assets:					
Cash & investments	\$ 1,123,038	1,583,486	(460,448)	2,516,036	(932,550)
Accrued interest receivable	1,292	141,188	(139,896)	145,688	(4,500)
Accounts receivable	3,855,973	5,110,644	(1,254,671)	4,170,761	939,883
Grants receivable	278,029	278,029	-	836,965	(558,936)
Prepaid expenses	-	-	-	6,000	(6,000)
Water-in-storage inventory	13,127,717	12,980,026	147,691	5,949,147	7,030,879
Installment purchase receivable	-	30,350,000	(30,350,000)	31,335,000	(985,000)
Capital assets, net	<u>29,009,117</u>	<u>28,351,651</u>	<u>657,466</u>	<u>27,188,627</u>	<u>1,163,024</u>
Total assets	<u>47,395,166</u>	<u>78,795,024</u>	<u>(31,399,858)</u>	<u>72,148,224</u>	<u>6,646,800</u>
Liabilities:					
Accounts payable	4,261,296	5,118,399	(857,103)	4,952,489	165,910
Unearned revenue	-	-	-	6,000	(6,000)
Accrued interest payable	-	141,188	(141,188)	145,688	(4,500)
Long-term debt	<u>1,670,026</u>	<u>32,061,257</u>	<u>(30,391,231)</u>	<u>33,082,797</u>	<u>(1,021,540)</u>
Total liabilities	<u>5,931,322</u>	<u>37,320,844</u>	<u>(31,389,522)</u>	<u>38,186,974</u>	<u>(866,130)</u>
Net position:					
Net investment in capital assets	27,339,091	26,640,394	698,697	25,440,830	1,199,564
Unrestricted	<u>14,124,753</u>	<u>14,833,786</u>	<u>(709,033)</u>	<u>8,520,420</u>	<u>6,313,366</u>
Total net position	<u>\$ 41,463,844</u>	<u>41,474,180</u>	<u>(10,336)</u>	<u>33,961,250</u>	<u>7,512,930</u>

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 \$41,463,844 and \$41,474,180 for the fiscal years ending June 30, 2022 and 2021, respectively.

By far, the largest component of net position is the Agency's net investment in capital assets. As of June 30, 2022 and 2021, net investment in capital assets increased by \$698,697 and \$1,199,564, from the prior year, respectively. These increases were due primarily to the recognition of capital costs, attributable to the water supply reliability projects. As of June 30, 2022 and 2021, the balance in construction-in-process amounted to \$6,852,265 and \$6,638,837, respectively.

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 was recorded. As of June 30, 2022 and 2021, the balance of the installment purchase receivable and related liability was \$0 and \$30,350,000, respectively. In fiscal year 2022, RWD and WVWD refinanced (defeased) the 2012 and 2013 Series A Water Revenue Bonds, respectively, for the purpose of taking advantage of reduced interest rates. As part of the refinance, the refinanced bonds were issued in the name of each District. As a result, the Agency removed the bond debt, installment receivable, and related interest amounts. The 2012 and 2013 Series A Water Revenue Bond refinance (defeasance) is reported in the financial statements of Walnut Valley Water District and Rowland Water District, respectively.

Puente Basin Water Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2022 and 2021

Statements of Revenues, Expenses, and Changes in Net Position

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

	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>2020</u>	<u>Change</u>
Operating revenues:					
Sale of water (TVMWD)	\$ 18,324,933	17,211,751	1,113,182	16,233,060	978,691
Sale of water (Project)	583,439	967,896	(384,457)	890,300	77,596
Member assessments	173,810	155,668	18,142	179,884	(24,216)
Other revenue	94,500	184,386	(89,886)	29,333	155,053
Total operating revenues	<u>19,176,682</u>	<u>18,519,701</u>	<u>656,981</u>	<u>17,332,577</u>	<u>1,187,124</u>
Non-operating revenues:					
Investment income, net of fair market value	-	1,386,381	(1,386,381)	1,467,411	(81,030)
Total non-operating revenues	<u>-</u>	<u>1,386,381</u>	<u>(1,386,381)</u>	<u>1,467,411</u>	<u>(81,030)</u>
Total revenues	<u>19,176,682</u>	<u>19,906,082</u>	<u>(729,400)</u>	<u>18,799,988</u>	<u>1,106,094</u>
Operating expenses:					
Water supply (TVMWD)	18,322,873	17,209,691	1,113,182	16,231,000	978,691
Water supply (Project)	807,255	1,435,346	(628,091)	1,353,519	81,827
Engineering	1,200	1,460	(260)	1,396	64
Professional services	122,600	114,918	7,682	117,848	(2,930)
Legal	5,553	21,667	(16,114)	56,798	(35,131)
Administrative	69,280	54,858	14,422	40,008	14,850
Accounting	9,237	7,735	1,502	9,090	(1,355)
Depreciation and amortization	414,968	414,968	-	376,950	38,018
Total operating expenses	<u>19,752,966</u>	<u>19,260,643</u>	<u>492,323</u>	<u>18,186,609</u>	<u>1,074,034</u>
Non-operating expenses:					
Investment expense, net of fair market value	3,440	-	3,440	-	-
Interest expense	64,859	1,457,960	(1,393,101)	1,505,936	(47,976)
Total non-operating expenses	<u>68,299</u>	<u>1,457,960</u>	<u>(1,389,661)</u>	<u>1,505,936</u>	<u>(47,976)</u>
Total expenses	<u>19,821,265</u>	<u>20,718,603</u>	<u>(897,338)</u>	<u>19,692,545</u>	<u>1,026,058</u>
Net loss before capital contributions	(644,583)	(812,521)	167,938	(892,557)	80,036
Capital contributions	634,247	8,325,451	(7,691,204)	1,568,658	6,756,793
Changes in net position	(10,336)	7,512,930	(7,523,266)	676,101	6,836,829
Net position, beginning of year	<u>41,474,180</u>	<u>33,961,250</u>	<u>7,512,930</u>	<u>33,285,149</u>	<u>676,101</u>
Net position, end of year	<u>\$ 41,463,844</u>	<u>41,474,180</u>	<u>(10,336)</u>	<u>33,961,250</u>	<u>7,512,930</u>

**Puente Basin Water Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2022 and 2021**

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

Fiscal Year 2022 – Revenues and Expenses

For fiscal year 2022, the Agency had total operating revenues of \$19,176,682, an increase of \$656,981 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 \$18,324,933, an increase of \$1,113,182 from the prior year. In addition, the Cal Domestic project produced 595 acre-feet of water during the year. The total costs related to the production of this water source totaled \$915,016, a decrease of \$517,666 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 \$173,810, an increase of \$18,142 over the prior year.

For fiscal year 2022, the Agency had total operating expenses of \$19,752,966, an increase of \$492,323 from the prior year. As discussed above, the most significant costs were attributable to the purchase and production of water, which totaled \$19,130,128 for the year, an increase of \$485,091 from the prior year.

Capital contributions for the year totaled \$634,247, a decrease of \$7,691,204 from the prior year, which was primarily due to decreases of \$7,137,160 in contributions sourcing from stored water from member agencies, \$554,044 in capital contributions from member agency assessments, which were offset by a decrease of \$650,954 in state capital contributions. Capital contributions included the money paid by each member agency and grant revenue for alternative water supply projects.

Fiscal Year 2021 – Revenues and Expenses

For fiscal year 2021, the Agency had total operating revenues of \$18,519,698, an increase of \$1,187,122 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 \$17,209,691, an increase of \$978,691 from the prior year. In addition, the Cal Domestic project produced 1,105 acre-feet of water during the year. The total costs related to the production of this water source totaled \$1,432,682, an increase of \$84,046 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 \$155,668, a decrease of \$24,216 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 \$1,457,960.

For fiscal year 2021, the Agency had total operating expenses of \$19,620,642, an increase of \$1,074,033 from the prior year. As discussed above, the most significant costs were attributable to the purchase and production of water, which totaled \$18,645,037 for the year, an increase of \$1,060,518 from the prior year.

Capital contributions for the year totaled \$8,325,451, an increase of \$6,756,793 from the prior year, which was primarily due to increases of \$7,163,560 in contributions sourcing from stored water from member agencies and \$244,187 in capital contributions from member agency assessments. Capital contributions included the money paid by each member agency and grant revenue for alternative water supply projects.

Puente Basin Water Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2022 and 2021

Capital Asset Administration

Changes in capital assets for 2022, were as follows:

	<u>Balance 2021</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2022</u>
Capital assets:				
Non-depreciable assets	\$ 17,041,791	1,072,434	(859,006)	17,255,219
Depreciable and amortizable assets	12,995,610	859,006	-	13,854,616
Accumulated depreciation and amortization	<u>(1,685,750)</u>	<u>(414,968)</u>	<u>-</u>	<u>(2,100,718)</u>
Total capital assets, net	<u>\$ 28,351,651</u>	<u>1,516,472</u>	<u>(859,006)</u>	<u>29,009,117</u>

Changes in capital assets for 2021, were as follows:

	<u>Balance 2020</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2021</u>
Capital assets:				
Non-depreciable assets	\$ 15,463,799	1,577,992	-	17,041,791
Depreciable and amortizable assets	12,995,610	-	-	12,995,610
Accumulated depreciation and amortization	<u>(1,270,782)</u>	<u>(414,968)</u>	<u>-</u>	<u>(1,685,750)</u>
Total capital assets, net	<u>\$ 27,188,627</u>	<u>1,163,024</u>	<u>-</u>	<u>28,351,651</u>

As of June 30, 2022 and 2021, the Agency had invested \$29,009,117 and \$28,351,651 in capital assets, a net increase from asset additions and deletions of \$657,466 and \$1,163,024 from the prior fiscal year, respectively. These assets were comprised of construction-in-process capital assets related to several alternative water supply projects.

Debt Administration

	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>2020</u>	<u>Change</u>
Long-term debt:					
2012 Series A Water Revenue Bonds (RWD Project)	\$ -	16,460,000	(16,460,000)	16,935,000	(475,000)
2013 Series A Water Revenue Bonds (WVWD Project)	-	13,890,000	(13,890,000)	14,400,000	(510,000)
Capital lease payable	<u>1,670,026</u>	<u>1,711,257</u>	<u>(41,231)</u>	<u>1,747,797</u>	<u>(36,540)</u>
Total	<u>\$ 1,670,026</u>	<u>32,061,257</u>	<u>(30,391,231)</u>	<u>33,082,797</u>	<u>(1,021,540)</u>

As of June 30, 2022, the Agency's long-term debt amounted to \$1,670,026, a decrease from debt defeasance and lease payment of \$30,391,231 from the prior fiscal year.

As of June 30, 2021, the Agency's long-term debt amounted to \$32,061,257, a decrease from debt service and lease payment of \$1,021,540, from the prior fiscal year.

**Puente Basin Water Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2022 and 2021**

Conditions Affecting Current Financial Position

Management is unaware of any 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 Assistant Treasurer, Myra Malner, 3021 Fullerton Road, Rowland Heights, California, 91748 or (562) 697-1726.

Basic Financial Statements

Puente Basin Water Agency
Statements of Net Position
June 30, 2022 and 2021

	2022	2021
Current assets:		
Cash and cash equivalents (note 2)	\$ 1,123,038	1,583,486
Accrued interest receivable	1,292	141,188
Accounts receivable	3,855,973	5,110,644
Grants receivable	278,029	278,029
Water-in-storage inventory	13,127,717	12,980,026
Long-term assets – due in one year:		
Installment purchase receivable (note 3)	-	1,030,000
Total current assets	18,386,049	21,123,373
Non-current assets:		
Long-term assets – due after one year:		
Installment purchase receivable (note 3)	-	29,320,000
Capital assets – not being depreciated and amortized (note 4)	17,255,219	17,041,791
Capital assets – being depreciated and amortized, net (note 4)	11,753,898	11,309,860
Total non-current assets	29,009,117	57,671,651
Total assets	47,395,166	78,795,024
Current liabilities:		
Accounts payable and accrued expenses	4,261,296	5,118,399
Accrued interest payable	-	141,188
Long-term liabilities – due in one year:		
Bond payable (note 5)	-	1,030,000
Capital lease payable (note 5)	46,207	41,231
Total current liabilities	4,307,503	6,330,818
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Bond payable (note 5)	-	29,320,000
Capital lease payable (note 5)	1,623,819	1,670,026
Total non-current liabilities	1,623,819	30,990,026
Total liabilities	5,931,322	37,320,844
Net position: (note 6)		
Net investment in capital assets	27,339,091	26,640,394
Unrestricted	14,124,753	14,833,786
Total net position	\$ 41,463,844	41,474,180

See accompanying notes to the basic financial statements

Puente Basin Water Agency
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2022 and 2021

	2022	2021
Operating revenues:		
Sale of water to member agencies – TVMWD	\$ 18,324,933	17,211,751
Sale of water to member agencies – Project	583,439	967,896
Member assessments	173,810	155,668
Water leases	62,500	50,000
Other water service charges	32,000	134,386
Total operating revenues	19,176,682	18,519,701
Operating expenses:		
Water supply – TVMWD	18,322,873	17,209,691
Water supply – Project	807,255	1,435,346
Engineering	1,200	1,460
Professional services	122,600	114,918
Legal	5,553	21,667
Administrative	69,280	54,858
Accounting	9,237	7,735
Total operating expenses	19,337,998	18,845,675
Operating loss before depreciation and amortization expense	(161,316)	(325,974)
Depreciation and amortization expense	(414,968)	(414,968)
Operating loss	(576,284)	(740,942)
Non-operating revenue(expense):		
Investment (expense) income, net of fair market value	(3,440)	1,386,381
Interest expense – long-term debt	(64,859)	(1,457,960)
Total non-operating revenue(expense), net	(68,299)	(71,579)
Net loss before capital contributions	(644,583)	(812,521)
Capital contributions:		
Capital contributions – member agency assessments	153,647	707,691
Contributions – stored water purchases from member agencies	480,600	7,617,760
Total capital contributions	634,247	8,325,451
Changes in net position	(10,336)	7,512,930
Net position, beginning of the year	41,474,180	33,961,250
Net position, end of year	\$ 41,463,844	41,474,180

See accompanying notes to the basic financial statements

Puente Basin Water Agency
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Cash received for water sales and assessments	\$ 20,431,353	18,132,754
Cash paid to vendors and suppliers for materials and services	(20,342,792)	(25,704,644)
Net cash provided by (used in) operating activities	88,561	(7,571,890)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,072,434)	(1,577,992)
Capital contributions	634,247	8,325,451
Payments received for loans receivable	30,350,000	985,000
Proceeds from capital grants	-	-
Principal paid on debt service	(30,391,231)	(1,021,540)
Interest paid on debt	(206,047)	(1,462,460)
Net cash (used in) provided by capital and related financing activities	(685,465)	5,248,459
Cash flows from investing activities:		
Interest and investment earnings	136,456	1,390,881
Net cash provided by investing activities	136,456	1,390,881
Net decrease in cash and cash equivalents	(460,448)	(932,550)
Cash and cash equivalents, beginning of year	1,583,486	2,516,036
Cash and cash equivalents, end of year	\$ 1,123,038	1,583,486
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	\$ (576,284)	(740,942)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	414,968	414,968
(Increase)Decrease in assets:		
Accounts receivable	1,254,671	(939,883)
Grants receivable	-	558,936
Prepaid expenses and other deposits	-	6,000
Inventory – water	(147,691)	(7,030,879)
Increase in liabilities:		
Accounts payable and accrued expenses	(857,103)	165,910
Unearned revenue	-	(6,000)
Total adjustments	664,845	(6,830,948)
Net cash (used in) provided by operating activities	\$ 88,561	(7,571,890)

See accompanying notes to the basic financial statements

Puente Basin Water Agency
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2022 and 2021

(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:

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.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

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

C. Financial Reporting, 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.

Governmental Accounting Standards Board Statement No. 98

This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of Annual Comprehensive Financial Report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for Annual Comprehensive Financial Report sounds like a profoundly objectionable racial slur. This Statement’s introduction of the new term is founded on a commitment to promoting inclusiveness.

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.

2. 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.

3. 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.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

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

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

4. 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, 2022 and 2021, the Agency had no allowance for uncollectible accounts as management believes all accounts will be collected.

5. 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, which administers the Main San Gabriel Basin Judgment under which such storage is authorized.

In 2022, the Agency received 600 acre-feet of water from Rowland Water District and Walnut Valley Water District and is held in storage with the Main San Gabriel Basin Watermaster. As of June 30, 2022, the Agency had a total of 21,666 acre-feet of water-in-storage valued using an average cost of \$606 per acre-foot.

In 2021, the Agency received 6,000 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, 2021, the Agency had a total of 21,661 acre-feet of water-in-storage valued using an average cost of \$599 per acre-foot.

6. 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.

7. 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

Leased right-to-use assets are amortized on a straight-line basis over the life of the lease.

8. 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.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

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

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

9. 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.

10. Water Sales and Services

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

11. Capital Contributions

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

12. 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.

(2) Cash and Cash Equivalents

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

	2022	2021
Cash and investments		
Deposits with financial institutions	\$ 440,814	446,530
Deposits in Local Agency		
Investment Fund (LAIF)	682,224	1,136,956
Total cash and investments	\$ 1,123,038	1,583,486

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

	2022	2021
Deposits in Local Agency		
Inv Investment Fund (LAIF)	311 days	291 days

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(2) Cash and Cash Equivalents, continued

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 Agency's	10%
Commercial Paper – Non-Pooled Funds	270 days	money	
Repurchase agreements	1 year	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

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).

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk, continued

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.

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. As of June 30, 2022 and 2021, the Agency's deposit portfolio with a government-sponsored agency, LAIF, is 61% and 72%, respectively, 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.

In fiscal year 2022, RWD and WVWD refinanced (defeased) the 2012 and 2013 Series A Water Revenue Bonds, respectively, for the purpose of taking advantage of reduced interest rates. As part of the refinance, the refinanced bonds were issued in the name of each District. As a result, the Agency removed the bond debt, installment receivable, and related interest amounts. The 2012 and 2013 Series A Water Revenue Bond refinance (defeasance) are reported in the financial statements of Walnut Valley Water District and Rowland Water District, respectively.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(3) Installment Purchase Receivable, continued

As of June 30, 2021, the total current portion was \$1,030,000, current amounts required to be paid by RWD and WVWD were \$495,000 and \$535,000, respectively. As of June 30, 2021, the total long-term portion amounted to \$29,320,000. Of this total amount, the long-term amounts required to be paid by RWD and WVWD were \$15,965,000 and \$13,355,000, respectively. Please also see note 5 for further detail.

(4) Capital Assets

Changes in capital assets for the year ended June 30, 2022, are as follows:

	<u>Balance 2021</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2022</u>
Non-depreciable assets:				
Water rights	\$ 10,402,954	-	-	10,402,954
Construction-in-Process	<u>6,638,837</u>	<u>1,072,434</u>	<u>(859,006)</u>	<u>6,852,265</u>
Total non-depreciable assets	<u>17,041,791</u>	<u>1,072,434</u>	<u>(859,006)</u>	<u>17,255,219</u>
Depreciable and amortizable assets:				
Old Baldy well – facility lease	1,841,213	-	-	1,841,213
Pumping plant and equipment	<u>11,154,397</u>	<u>859,006</u>	<u>-</u>	<u>12,013,403</u>
Total depreciable and amortizable assets	<u>12,995,610</u>	<u>859,006</u>	<u>-</u>	<u>13,854,616</u>
Accumulated depreciation and amortization:				
Old Baldy well – facility lease	(294,593)	(88,378)	-	(382,971)
Pumping plant and equipment	<u>(1,391,157)</u>	<u>(326,590)</u>	<u>-</u>	<u>(1,717,747)</u>
Total accumulated depreciation and amortization	<u>(1,685,750)</u>	<u>(414,968)</u>	<u>-</u>	<u>(2,100,718)</u>
Total depreciable and amortizable assets, net	<u>11,309,860</u>	<u>444,038</u>	<u>-</u>	<u>11,753,898</u>
Total capital assets, net	<u>\$ 28,351,651</u>	<u>1,516,472</u>	<u>(859,006)</u>	<u>29,009,117</u>

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(4) Capital Assets, continued

Changes in capital assets for the year ended June 30, 2021, are as follows:

	<u>Balance 2020</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2021</u>
Non-depreciable assets:				
Water rights	\$ 10,402,954	-	-	10,402,954
Construction-in-process	<u>5,060,845</u>	<u>1,577,992</u>	-	<u>6,638,837</u>
Total non-depreciable assets	<u>15,463,799</u>	<u>1,577,992</u>	-	<u>17,041,791</u>
Depreciable and amortizable assets:				
Old Baldy well – facility lease	1,841,213	-	-	1,841,213
Pumping plant and equipment	<u>11,154,397</u>	-	-	<u>11,154,397</u>
Total depreciable and amortizable assets	<u>12,995,610</u>	-	-	<u>12,995,610</u>
Accumulated depreciation and amortization:				
Old Baldy well – facility lease	(206,215)	(88,378)	-	(294,593)
Pumping plant and equipment	<u>(1,064,567)</u>	<u>(326,590)</u>	-	<u>(1,391,157)</u>
Total accumulated depreciation and amortization	<u>(1,270,782)</u>	<u>(414,968)</u>	-	<u>(1,685,750)</u>
Total depreciable and amortizable assets, net	<u>11,724,828</u>	<u>(414,968)</u>	-	<u>11,309,860</u>
Total capital assets, net	<u>\$ 27,188,627</u>	<u>1,163,024</u>	-	<u>28,351,651</u>

For the fiscal year ending June 30, 2022, the Agency had additions of \$1,072,434 and deletions of \$859,006 in construction-in-process. For the fiscal year ending June 30, 2021, the Agency had additions of \$1,577,992 of construction-in-process to pumping plant and equipment.

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 are as follows:

	<u>2022</u>	<u>2021</u>
20" Water Transmission Main Project	\$ -	705,330
Six Basins Groundwater Project	<u>6,852,265</u>	<u>5,933,507</u>
Total construction-in-process	<u>\$ 6,852,265</u>	<u>6,638,837</u>

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(5) Long-Term Debt

Changes in long-term debt for the year ended June 30, 2022, are as follows:

	<u>Balance 2021</u>	<u>Additions/ Deletions</u>	<u>Principal Payments</u>	<u>Balance 2022</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Bonds payable:						
2012 Series A Water Revenue Bonds:						
Rowland Water District	\$ 16,460,000	-	(16,460,000)	-	-	-
2013 Series A Water Revenue Bonds:						
West Valley Water District	<u>13,890,000</u>	<u>-</u>	<u>(13,890,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	30,350,000	-	(30,350,000)	-	-	-
Capital lease payable	<u>1,711,257</u>	<u>-</u>	<u>(41,231)</u>	1,670,026	46,207	1,623,819
Total	<u>32,061,257</u>	<u>-</u>	<u>(30,391,231)</u>	<u>1,670,026</u>	<u>46,207</u>	<u>1,623,819</u>

Changes in long-term debt for the year ended June 30, 2021, are as follows:

	<u>Balance 2020</u>	<u>Additions/ Deletions</u>	<u>Principal Payments</u>	<u>Balance 2021</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
Bonds payable:						
2012 Series A Water Revenue Bonds:						
Rowland Water District	\$ 16,935,000	-	(475,000)	16,460,000	495,000	15,965,000
2013 Series A Water Revenue Bonds:						
West Valley Water District	<u>14,400,000</u>	<u>-</u>	<u>(510,000)</u>	<u>13,890,000</u>	<u>535,000</u>	<u>13,355,000</u>
Total bonds payable	31,335,000	-	(985,000)	30,350,000	1,030,000	29,320,000
Capital lease payable	<u>1,747,797</u>	<u>-</u>	<u>(36,540)</u>	1,711,257	41,231	1,670,026
Total	<u>33,082,797</u>	<u>-</u>	<u>(1,021,540)</u>	<u>32,061,257</u>	<u>1,071,231</u>	<u>30,990,026</u>

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.

In fiscal year 2022, RWD and WVWD refinanced (defeased) the 2012 and 2013 Series A Water Revenue Bonds, respectively, for the purpose of taking advantage of reduced interest rates. As part of the refinance, the refinanced bonds were issued in the name of each District. As a result, the Agency removed the bond debt, installment receivable, and related interest amounts. The 2012 and 2013 Series A Water Revenue Bond refinance (defeasance) is reported in the financial statements of Walnut Valley Water District and Rowland Water District, respectively.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(5) Long-Term Debt, continued

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, 2037. 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.

In fiscal year 2022, RWD and WVWD refinanced (defeased) the 2012 and 2013 Series A Water Revenue Bonds, respectively, for the purpose of taking advantage of reduced interest rates. As part of the refinance, the refinanced bonds were issued in the name of each District. As a result, the Agency removed the bond debt, installment receivable, and related interest amounts. The 2012 and 2013 Series A Water Revenue Bond refinance (defeasance) is reported in the financial statements of Walnut Valley Water District and Rowland Water District, respectively.

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, 2038, at an annual interest rate of 4%.

Future annual lease payments are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 46,207	66,344	112,551
2024	51,484	64,443	115,927
2025	57,076	62,329	119,405
2026	63,001	59,986	122,987
2027	69,273	57,404	126,677
2028-2032	453,871	238,851	692,722
2033-2037	673,796	129,258	803,054
2038-2040	255,318	10,339	265,657
Total	1,670,026	<u>688,954</u>	<u>2,358,980</u>
Current	<u>(46,207)</u>		
Non-current	\$ <u>1,623,819</u>		

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(6) Net Position

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

	2022	2021
Net investment in capital assets:		
Capital assets, net	\$ 29,009,117	28,351,651
Capital lease, current	(46,207)	(41,231)
Capital lease, non-current	(1,623,819)	(1,670,026)
Total investment in capital assets	27,339,091	26,640,394
Unrestricted net position	14,124,753	14,833,786
Total net position	\$ 41,463,844	41,474,180

(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, 2022, the Agency participated in the ACWA/JPIA pooled programs for liability, property, 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.
- 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 \$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.
- Crime coverage up to \$100,000 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.

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

- Cyber liability including cyber security up to \$5,000,000 per occurrence and \$5,000,000 aggregate limit. Cyber liability deductible varies from \$10,000 to \$50,000 depending on Agency scheduled total values.

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, 2022, 2021 and 2020. 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, 2022, 2021 and 2020.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2022, that have effective dates that may impact future financial presentations.

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.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(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.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(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.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

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

Governmental Accounting Standards Board Statement No. 98

In October 2021, the GASB issued Statement No. 98 – *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement’s introduction of the new term is founded on a commitment to promoting inclusiveness.

The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 99

In April 2022, the GASB issued Statement No. 99 – *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. Consistent authoritative literature enables governments and other stakeholders to locate and apply the correct accounting and financial reporting provisions, which improves the consistency with which such provisions are applied. The comparability of financial statements also will improve as a result of this Statement. Better consistency and comparability improve the usefulness of information for users of state and local government financial statements.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 100

In June 2022, the GASB issued Statement No. 100 – *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

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

Governmental Accounting Standards Board Statement No. 100, continued

The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 101

In June 2022, the GASB issued Statement No. 101 – *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

(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 member capital contributions.

Puente Basin Water Agency
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2022 and 2021

(9) Commitments and Contingencies, continued

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.

(10) Subsequent Events

Events occurring after June 30, 2022, have been evaluated for possible adjustment to the financial statements or disclosure as of December 8, 2022, 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, 2022, 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 8, 2022.

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 8, 2022