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**REQUEST FOR PROPOSAL  
FOR PROFESSIONAL AUDITING SERVICES  
FISCAL YEARS ENDING 2022, 2023 & 2024**

**(Due no later than 4:00 p.m. on Monday, March 14, 2022)**

**FEBRUARY 2022**

## **GENERAL**

The Water Facilities Authority (“Authority”) is soliciting proposals from qualified certified public accounting firms to provide annual audit services for the next three years, commencing with the fiscal year ending June 30, 2022.

Proposals will be accepted only from parties that are free of all obligation and interests that might conflict with the best interest of the Authority, and have the capacity to provide services on a timely basis. The audit engagement, including the final written draft of the Basic Financial Statements and audit report, must be completed annually no later than the end of the third week in the month of August for review by the Treasurer, with a subsequent presentation made to the Finance/Budget Committee the second Thursday in the month of September followed by a presentation to and approval by the Board of Directors the third Thursday in the month of September.

## **MINIMUM QUALIFICATIONS**

Only the proposals of those firms who demonstrate the following minimum qualifications will be evaluated by the Authority.

1. **Independence:** The firm must be able to provide an affirmative statement that it is independent of the Water Facilities Authority, in accordance with auditing standards generally accepted in the United States of America and the U.S. Government Accountability Office’s *Government Auditing Standard*.
2. **License to practice in the State of California:** An Affirmative statement is required that the firm and all assigned key professional staff are properly registered and licensed to practice in the State of California.
3. **Experience:** Experience conducting high quality audits of water districts and/or special districts conducting municipal water related business.
4. **Firm Capacity:** Demonstrated capacity to devote the necessary personnel and technical resources to complete the work in accordance with the scheduled timeline.

## **WATER FACILITIES AUTHORITY**

Water Facilities Authority is a Joint Powers Agency consisting of the cities of Chino, Chino Hills, Ontario, Upland and the Monte Vista Water District. State Project Water is purchased from the Metropolitan Water District of Southern California. The Authority owns and operates the Aqua de Lejos Treatment

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Plant, located in Upland, CA. Wholesale supplemental surface water is treated at the plant to produce high quality potable water for its member retail agencies.

### **ACCOUNTING SYSTEM**

The Authority utilizes the accounting services of Eide Bailly LLP for its routine business transactions.

Eide Bailly LLP maintains all financial records for the current fiscal year. Older records are archived at the Authority's facility. According to past audit reports, there are no known exceptions to generally accepted accounting principles or any material weaknesses noted. Teaman, Ramirez & Smith, Inc. of Riverside, California completed the most recent audit for the fiscal year ended June 30, 2021 (enclosed).

### **SCOPE OF AUDIT**

The Auditor shall examine all Authority funds in accordance with Generally accepted auditing standards in the United States of America, *Government Auditing Standards*, and the State Controller's Minimum Audit Requirements for California Special Districts.

The Auditor shall prepare the Financial Statements in conformance with all applicable GASB pronouncements, and the prevailing edition of the GAAFR and the GAAFR Update Supplement.

The audit must determine whether the financial statements present fairly its financial position in accordance with GAAP.

It is expected that the auditor keep the Agency informed of any new state and National developments affecting municipal finance and reporting standards and trends. This shall include at least one formal updating session per fiscal year with the Authority's Treasurer.

### **AGENCY RESPONSIBILITIES**

1. The Treasurer will prepare unaudited closing entries including work papers supporting assets and liability balances.
2. The Treasurer's staff will be available during the audit to assist the Auditor by providing requested information, documentation and explanations.
3. The preparation of confirmations will be the responsibility of the Treasurer.

4. The Treasurer shall provide a reasonable work area (table and chairs), telephones, photocopying facilities, facsimile machines and electrical power to the Auditor for use during the audit.

### **REPORT REQUIREMENTS**

Auditor shall prepare and provide the specified reports in the format and quantities listed below:

1. Electronic Copy in PDF Format (1)

Basic Financial Statements which include;

- A) Statement of Net Assets
- B) Statement of Revenues, Expenses, and changes in Net Assets
- C) Statement of Cash Flows
- D) Notes to Financial Statements

Auditor shall provide the Management Letter to the Authority's Board of Directors and include statements on audit findings and recommendations affecting the financial statements, internal controls, accounting systems, legality of actions, other instances of non-compliance with laws and regulations, and any other material findings.

### **TIME CONSIDERATION AND OTHER REQUIREMENTS**

The required timeline for Fiscal Year End 2022 (and similarly for other fiscal years) is summarized as follows:

1. Auditor shall commence year-end audit at the beginning of August following fiscal year end.
2. A draft copy of the audit report is due for review by the Treasurer by the end of the third week of August.
3. Draft copy of the audit report presented at the September Finance/Budget Committee meeting the second Thursday of the month (due by the first Thursday of the month for inclusion in committee packet).
4. The final report shall be presented at the September Board of Directors meeting held the third Thursday of the month (due by the second Thursday of the month for inclusion in board packet).

Auditor's staff assigned to the audit will include at least one person with three or more years of water district auditing experience and shall be at a supervisory level. There shall be at least one additional person on the audit staff at a level sufficient to complete the audit in the time schedule specified above.

## **AUDITOR PROPOSAL SUBMISSIONS**

To achieve a uniform process and obtain the maximum degree of comparability it is required that proposals be organized in the following manner:

### **1. TABLE OF CONTENTS**

- a) Identify the material sections and page numbers

### **2. LETTER OF TRANSMITTAL**

- a) State briefly, the firm's understanding of the work to be done, and make a positive commitment to perform the work within the proposed time-period.
- b) Provide the names of the individuals authorized to make representations for the firm, their titles, addresses, and telephone numbers.

### **3. PROFILE OF THE PROPOSER**

- a) Affirm that you meet the independence requirement of the General Accounting Office.
- b) State whether the firm is local, national, or international.
- c) Give the location of the office from which the work is to be performed and the number or partners, managers/principals, supervisors, seniors, and other professional staff employed at the office.
- d) Describe the range of activities performed by the local office, such as audit, accounting, tax service, or management services.
- e) Provide a brief resume of the partner, manager/principal, or senior who will be assigned to the audit. The resume should minimally include educational background; the state(s) and year(s) in which licensed as a Certified Public Accountant, professional memberships; years associated with your firm; and specific qualifications, education, and experience as they relate to auditing governmental units and specifically water districts.
- f) Describe your firm's previous water district auditing experience. Include three (3) names of clients, name and telephone number of contact person(s).

#### 4. SCOPE OF PROPOSAL

- a) Clearly describe the scope of the required services to be provided. Include an affirmation that the audit timeline due dates will be met.
- b) The proposal should set forth a summarized work plan including the proposed segmentation of the audit process and the level of staff and number of hours to be assigned to each proposed segment of the audit.
- c) The proposal should specify the extent to which sampling will be used and anticipated sample sizes.
- d) The type and extent of analytical procedures to be used in the engagement.
- e) The approach to be taken to gain and document an understanding of the internal control structure.

#### 5. AUDIT FEES

In recent years, the total payment for services and supplies for audit services has been based on a fixed fee. To allow the proposers some flexibility in their proposal, we will accept proposals that propose either the CPI indexing or fixed fees for each of the three years. Therefore, your proposal should specify which fee method you are proposing.

Contract language for the CPI indexing will read similar to the following:

*“The total payment for services and supplies for audit services shall be based on a not to exceed basis for the fiscal year ending June 30, 2022. For subsequent years, this compensation will be adjusted to, but shall not exceed, the Consumer Price Index for All Urban Consumers for the Los Angeles/Riverside/Orange County areas on a calendar year basis. The calendar year prior to the applicable fiscal year will be the calendar year used for these calculations.*

*Any change in the cost of audit services due to a change in the scope or other consideration will be subject to negotiation and agreement to all parties of this agreement.”*

The proposal shall breakdown the basic audit fees, including all expenses as illustrated in the following format:

**COST PROPOSAL SUBMITTAL SUMMARY:**

	<i>Fiscal Year <u>2021-22</u></i>	<i>Fiscal Year <u>2022-23</u></i>	<i>Fiscal Year <u>2023-24</u></i>
<b>Financial Statements</b>			
Audit Basic Financial Statements, Reports & Opinions including the Preparation as described in RFP	\$ _____	\$ _____	\$ _____
<b>Travel and Miscellaneous</b>			
Other	\$ _____	\$ _____	\$ _____
<b>TOTAL</b>	\$ -	\$ -	\$ -
Totals must agree with "Proposal Submittal Supporting Detail"			

Phone consultation between Auditor and the Authority, and any Auditor familiarization with or preparation for the Authority, shall be included in the base fee.

In addition, include a fee schedule of hourly charges for principals and various staff levels to be used as a basis for audit costs that are outside the scope of the basic auditing and accounting services.

**Auditors Standard Hourly Billing Rates**

<b><u>POSITION</u></b>	<b><u>FY 2021-22</u></b>	<b><u>FY 2022-23</u></b>	<b><u>FY 2023-24</u></b>
Partner	\$ -	\$ -	\$ -
Manager	-	-	-
Supervisor	-	-	-
Senior	-	-	-
Staff	-	-	-
Clerical	-	-	-

<u>Staff Classification</u>	<u>Rate per Hour</u>	<u>Total Estimated Hours</u>	<u>Total Fee</u>
Partner			\$ -
Manager			
Supervisor			
Senior Staff			
Clerical			
<b>Out of pocket expenses</b>			
<b>Total Hours and Fee</b>		0	\$ -

### EVALUATION OF PROPOSALS

Proposals will be evaluated by Authority staff to ascertain which proposal best meets the needs of the Authority. Factors that will be considered are:

1. Auditing experience of the firm with municipal water districts.
2. Professional qualifications and experience of the firm and proposed audit team.
3. Professional approach to assignment and willingness to work with management.
4. Responsiveness of the proposal by clearly stating an understanding of the work to be performed.
5. The anticipated support requirement of Authority staff.
6. The audit fee.

Based on the evaluation of the proposals according to the above criteria, the most qualified auditing firms may be asked to an oral interview prior to final selection.

### **ADDITIONAL INFORMATION**

1. The submission of proposal shall be prima-facie evidence that the auditor has full knowledge of the scope, nature, quantity and the quality of work to be performed as well as the detailed requirements of the specifications and the conditions under which the work is to be performed.
2. The Authority reserves the right to conduct reference checks.
3. The Auditor shall be responsible for any cost (i.e., travel, accommodations, etc.) in connection with the preparation of the proposal and in connection with the interview, if required.
4. The Authority reserves the right to reject any and all proposals, the right in its sole discretion to accept the proposal that it considers most favorable to Authority's best interest and the right to waive minor irregularities in the procedure.
5. The contracting firm shall make itself available to present the Audit Report and its content to the Authority's Finance/Budget Committee and Board of Directors and to respond to any questions or comments related to the Audit Report or audit findings.
6. Compensation for the conduct of the audit service will be paid upon submission of progress billing and upon a final billing, subject to the receipt of the required reports and/or evidence of completed work tasks.
7. The audit firm shall provide a certificate of insurance including workers' compensation, commercial general liability, commercial automobile liability, and professional liability insurance, in accordance to the agreement (sample contract enclosed).
8. No subcontracted auditing services will be allowed without the expressed prior written consent of the Authority. The Auditor shall be staffed adequately to provide all the necessary services.
9. The Auditor and all subcontractors shall comply with the applicable federal, state and local laws, rules and regulations.

To be considered, three (3) bound hardcopies and one (1) electronic PDF copy of your proposal must be received **no later than 4:00 p.m. on Thursday, March 14, 2022.**

Additional information, clarification, or questions regarding this request for proposal may be directed to Terry Catlin, General Manager at (909)981-9454, extension 12 or [tlcatlin@wfajpa.org](mailto:tlcatlin@wfajpa.org).

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# ANNUAL FINANCIAL REPORT

## JUNE 30, 2021 AND 2020



Audited by:  
Teaman, Ramirez, & Smith, Inc.  
4201 Brockton Avenue, Suite 100  
Riverside, CA 92501

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## **Our Mission Statement**

*"To reliably and economically treat and deliver high quality imported surface water provided by the Metropolitan Water District of Southern California to the Water Facilities Authority's five member agencies"*

### **Water Facilities Authority – Joint Powers Agency Board of Directors as of June 30, 2021**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Member Agency</u>
Peter Rogers	Chairman	Appointed	Chino Hills
G. Michael Milhiser	Vice-Chairman	Appointed	Monte Vista WD
Debra Dorst-Porada	Secretary	Appointed	Ontario
Eunice Ulloa	Director	Appointed	Chino
Bill Velto	Director	Appointed	Upland

**Water Facilities Authority – Joint Powers Agency  
Terry Catlin, General Manager  
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**WATER FACILITIES AUTHORITY-  
JOINT POWERS AGENCY**

**Annual Financial Report**

**June 30, 2021 and 2020**

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**Water Facilities Authority - Joint Powers Agency**  
**Annual Financial Report**  
June 30, 2021 and 2020

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## **INTRODUCTORY SECTION**

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September 16, 2021

Board of Directors  
Water Facilities Authority

## **Introduction**

It is management's pleasure to submit the Annual Financial Report for the Water Facilities Authority (Authority) for the fiscal year ended June 30, 2021, following guidelines set forth by the Governmental Accounting Standards Board. The Authority is responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the Authority's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the Authority's organization and current Authority activities and provides a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the Authority's basic financial statements, and the Authority's audited basic financial statements with accompanying Notes.

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

## **Authority Structure, Services and Leadership**

The Authority is a special district which was created under a joint exercise of powers agreement under Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California. It was formed on February 19, 1980 for the purpose of acquisition and construction of facilities to supply potable water to the inhabitants of lands within the boundaries of its members. The members of the Authority are: The City of Chino, the City of Ontario, the City of Upland, the City of Chino Hills and the Monte Vista Water District. The Board of Directors is the governing body of the Authority. Each member of the Authority appoints, by Resolution of its governing body, one member of its governing body to act as its Director on the Board.

## **Economic Condition and Water Supply Outlook**

The Authority is located in the City of Upland in San Bernardino County. The Inland Empire (San Bernardino & Riverside Counties) plays a significant role in both the economy of California and the wider U.S. With almost 4.6 million residents, the Inland Empire is the third most populated Metropolitan Statistical Area (MSA) in California and the thirteenth largest MSA in the entire U.S.

According to the mid-year outlook presented by John D. Husing, Ph.D. (*Husing Economic Report, May 2021*), the area was down -4.19% (-65,600) jobs at the end of 2020 compared to 2019 as a result of the Covid-19 pandemic. The losing sectors were dominated by those that are generally lower paying, which exacerbates the area's income inequality. In 2021, Dr. Husing's forecast sees the economy regaining much of what was lost by the reopening of certain sectors and growth in logistics, construction and healthcare.

According to the United States Department of Agriculture's outlook for California's water supply (May 2021), as California enters the dry months of summer, this water year is on track to be one of the driest on record, due in no small measure to the lack of landfalling atmospheric rivers and persistent ridging/blocking over the Northeast Pacific Ocean. Statewide snowpack peaked on March 23rd with 64 percent its daily average, then shriveled to 17 percent of its daily average by the end of April, and to 7 percent by May 12th. Seasonal (October-April) precipitation totals were less than 50 percent of average in all three regions. Early May has been extremely dry, further reducing the seasonal average. California's major reservoirs (excluding Lake Mead and Lake Powell) are collectively storing almost 8.5 million acre-feet *less* than they were this time last year.

### **Internal Control Structure**

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

### **Budgetary Control**

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

### **Investment Policy**

The Board of Directors has adopted an investment policy that conforms to state law, Authority ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield. Authority funds are invested with the State Treasurer's Local Agency Investment Fund, CalTRUST, and various banking institutions.

### **Audit and Financial Reporting**

State Law and Bond covenants require the Authority to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Teaman, Ramirez & Smith, Inc. has conducted the audit of the Authority's financial statements. Their unmodified

Independent Auditor's Report appears in the Financial Section. More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

### **Acknowledgements**

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

Respectfully Submitted,



Terry Catlin  
General Manager

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Water Facilities Authority - Joint Powers Agency  
Upland, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Water Facilities Authority - Joint Powers Agency (the "Authority"), as of and for the year ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of June 30, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-9 and required supplementary information on pages 45-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Riverside, California

September 16, 2021

**Water Facilities Authority - Joint Powers Agency**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2021**  
**With Comparative Amounts as of June 30, 2020**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Water Facilities Authority – Joint Powers Agency (Authority) provides an introduction to the financial statements of the Authority for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The Authority's net position increased 9.9% or \$2,602,973 to \$28,836,271 in 2021 and increased 3.5% or \$905,192 to \$26,233,298 in 2020, respectively. The increase in net position in 2021 was a result of higher member agency contributions for capital replacement. The increase in net position in 2020 was a result of higher member agency contributions for capital replacement than in previous years.
- In 2021, the Authority's operating revenues decreased by 2.4% or \$582,197, and the Authority's operating expenses decreased by 4.1% or \$1,007,927 from the prior year. The decreases from prior year levels are primarily due to the decrease in the meter equivalent unit charges from the purchased water costs and thus a lower charge to the member agencies.
- In 2020, the Authority's operating revenues increased by 2.4% or \$580,156, and the Authority's operating expenses increased by 3.6% or \$869,997 from the prior year. The increases from prior year levels are primarily due to the increase in purchased water costs and thus a higher acre foot charge to the member agencies.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows provide information about the activities and performance of the Authority using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the Authority's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current years' revenue and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Authority's operations over the past year and can be used to determine if the Authority has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows, which provides information about the Authority's cash receipts and cash payments during the reporting period. The Statements of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Financial Analysis of the Authority**

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Authority in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current years' revenues

**Water Facilities Authority - Joint Powers Agency**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2021**  
**With Comparative Amounts as of June 30, 2020**

and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Authority's *net position* and changes therein. You can think of the Authority's net position – the difference between assets plus deferred outflows of resources, less liabilities, and deferred inflows of resources – as one way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

**Notes to the Basic Financial Statements**

The notes 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 42.

**Statements of Net Position**

**Condensed Statements of Net Position**

	<b>2021</b>	<b>2020</b>	<b>Change</b>
<b>Assets:</b>			
Current assets	\$ 14,578,896	12,156,435	2,422,461
Capital assets, net	20,439,024	19,456,379	982,645
<b>Total assets</b>	<b>35,017,920</b>	<b>31,612,814</b>	<b>3,405,106</b>
<b>Deferred outflows of resources</b>	<b>358,167</b>	<b>338,150</b>	<b>20,017</b>
<b>Liabilities:</b>			
Current liabilities	4,728,154	4,022,472	705,682
Non-current liabilities	1,761,818	1,628,261	133,557
<b>Total liabilities</b>	<b>6,489,972</b>	<b>5,650,733</b>	<b>839,239</b>
<b>Deferred inflows of resources</b>	<b>49,844</b>	<b>66,933</b>	<b>(17,089)</b>
<b>Net position:</b>			
Net investment in capital assets	20,439,024	19,456,379	982,645
Unrestricted	8,397,247	6,776,919	1,620,328
<b>Total net position</b>	<b>\$ 28,836,271</b>	<b>26,233,298</b>	<b>2,602,973</b>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets and deferred outflows of resources of the Authority exceeded liabilities and deferred inflows by \$28,836,271 and \$26,233,298 as of June 30, 2021 and 2020, respectively.

By far the largest portion of the Authority's net position (71% in 2021 and 74% in 2020) reflects its investment in capital assets (net of accumulated depreciation); less any related debt used to acquire those assets still outstanding. The Authority uses these capital assets to provide imported water to its members; consequently, these assets are *not* available for future spending.

**Water Facilities Authority - Joint Powers Agency**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2021**  
**With Comparative Amounts as of June 30, 2020**

At the end of fiscal year 2021 and 2020, the Authority shows a positive balance in its unrestricted net position of \$8,397,247 and \$6,776,919, respectively. See Note 8 for the amount of spendable net position that may be utilized in future years.

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

	<b>2021</b>	<b>2020</b>	<b>Change</b>
<b>Revenues:</b>			
Operating revenues	\$ 24,087,758	24,669,955	(582,197)
Non-operating revenues	3,584,230	1,739,610	1,844,620
<b>Total revenues</b>	<b>27,671,988</b>	<b>26,409,565</b>	<b>1,262,423</b>
<b>Expenses:</b>			
Operating expenses	23,825,416	24,833,343	(1,007,927)
Depreciation expense	1,214,090	1,191,076	23,014
Non-operating expenses	29,509	11,578	17,931
<b>Total expenses</b>	<b>25,069,015</b>	<b>26,035,997</b>	<b>(966,982)</b>
<b>Net income/(loss) before capital contributions</b>	<b>2,602,973</b>	<b>373,568</b>	<b>2,229,405</b>
<b>Capital contributions:</b>	<b>0</b>	<b>531,624</b>	<b>(531,624)</b>
<b>Change in net position</b>	<b>2,602,973</b>	<b>905,192</b>	<b>1,697,781</b>
<b>Net position – beginning of period</b>	<b>26,233,298</b>	<b>25,328,106</b>	<b>905,192</b>
<b>Net position – end of period</b>	<b>\$ 28,836,271</b>	<b>26,233,298</b>	<b>2,602,973</b>

The statements of revenues, expenses and changes of net position show how the Authority's net position changed during the fiscal year. In the case of the Authority, net position increased by \$2,602,973 and increased by \$905,192 during the fiscal years ended June 30, 2021 and 2020, respectively.

Each member agency is charged for purchasing untreated water from the Authority. It is the responsibility of each member agency to establish its right with the Inland Empire Utilities Agency to receive water at the basic untreated water rate. Water sales to member agencies totaled \$22,047,058 or 91.5% and \$22,997,860 or 93.2% of total operating revenues in 2021 and 2020, respectively. Source of supply – water purchases by members in the amount of \$19,772,591 or 83.0% and \$20,758,792 or 83.6% of total operating expenses was the majority of operating expenses in 2021 and 2020, respectively.

General and administrative costs and direct operations of the water treatment plant are also charged to the member agencies. The costs are estimated at the beginning of the fiscal year and billed monthly to the member agencies. An adjustment is made at the end of the year to adjust to actual costs for the fiscal year. These charges are included in operating revenue assessments to members, which totaled \$2,040,700 and \$1,672,095 in 2021 and 2020, respectively. The intent of the Authority is to have all operating and non-operating expenses funded by the member agencies including depreciation expense. Depreciation is funded by member agencies through a quarterly capital asset restricted reserve charge that is reflected in non-operating revenue.

**Water Facilities Authority - Joint Powers Agency**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2021**  
**With Comparative Amounts as of June 30, 2020**

**Capital Asset Administration**

At the end of fiscal year 2021 and 2020, the Authority's investment in capital assets amounted to \$20,439,024 and \$19,456,379, (net of accumulated depreciation), respectively. This investment in capital assets includes the Authority's water treatment plant and equipment. Capital asset additions during the year included the installation of the above ground diesel storage tank. Total capital asset additions for 2021 and 2020 amounted to \$180,971 and \$648,580 respectively.

Changes in capital assets for 2021 were as follows:

	<b>Balance 2020</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2021</b>
Non-depreciable assets:				
Total non-depreciable assets	\$ 512,941	2,045,273	-	2,558,214
Depreciable assets:				
Total depreciable assets	48,937,328	180,971	421,073	48,697,226
Accumulated depreciation:				
Total accumulated depreciation	(29,993,890)	(1,214,090)	(391,564)	(30,816,416)
Total depreciable assets, net	18,943,438	(1,033,119)	29,509	17,880,810
Total capital assets, net	<u>\$ 19,456,379</u>			<u>20,439,024</u>

**Requests for Information**

This financial report is designed to provide the Authority's funding sources, member agencies and other interested parties with an overview of the Authority'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 Authority's General Manager at 1775 N. Benson Avenue, Upland, California 91784.

## **BASIC FINANCIAL STATEMENTS**

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**Water Facilities Authority - Joint Powers Authority**  
**Statements of Net Position**  
**June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents (Note 2)	\$ 10,707,803	\$ 8,807,343
Accrued Interest Receivable	1,667	8,613
Accounts Receivable - Water Sales to Member Agencies	3,869,426	2,846,062
Prepaid Expenses	-	494,417
Total Current Assets	14,578,896	12,156,435
Non-current Assets:		
Capital Assets Not Being Depreciated (Note 4)	2,558,214	512,941
Capital Assets Being Depreciated, Net (Note 4)	17,880,810	18,943,438
Total Non-Current Assets	20,439,024	19,456,379
Total Assets	35,017,920	31,612,814
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Related (Note 7)	358,167	338,150

Continued

The accompanying notes are an integral part of this statements.

**Water Facilities Authority - Joint Powers Authority**  
**Statements of Net Position - Continued**  
**June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 4,678,376	\$ 3,977,470
Accrued Wages and Related Payables	11,382	8,998
Long-Term Liabilities - Due Within One Year:		
Accrued Compensated Absences (Note 5)	38,396	36,004
Total Current Liabilities	4,728,154	4,022,472
Non-current Liabilities:		
Long-Term Liabilities - Due in More than One Year:		
Accrued Compensated Absences (Note 5)	115,190	108,011
Other Post-Employment Benefits Payable (Note 6)	140,350	132,476
Net Pension Liability (Note 7)	1,506,278	1,387,774
Total Non-current Liabilities	1,761,818	1,628,261
Total Liabilities	6,489,972	5,650,733
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Related (Note 7)	49,844	66,933
<b>NET POSITION</b>		
Net Investment in Capital Assets	20,439,024	19,456,379
Unrestricted	8,397,247	6,776,919
Total Net Position	\$ 28,836,271	\$ 26,233,298

The accompanying notes are an integral part of this statements.

**Water Facilities Authority - Joint Powers Agency**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>OPERATING REVENUES</b>		
Water Sales to Member Agencies	\$ 22,047,058	\$ 22,997,860
Operating Assessments to Member Agencies	2,040,700	1,672,095
Total Operating Revenues	24,087,758	24,669,955
<b>OPERATING EXPENSES</b>		
Source of Supply - Water Purchases	19,772,591	20,758,792
Direct and Other Water Treatment	3,400,082	3,594,378
Operations and Administration	652,743	480,173
Total Operating Expenses	23,825,416	24,833,343
Operating Income (Loss) Before Depreciation	262,342	(163,388)
Depreciation of Capital Assets	(1,214,090)	(1,191,076)
Operating Income (Loss)	(951,748)	(1,354,464)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Non-capital Member Agencies Contribution	3,475,033	1,278,808
Investment Earnings	20,928	246,466
Rental Revenue - Cellular Antenna	83,968	79,685
Insurance Proceeds	-	124,496
Gain/(Loss) on Disposal of Capital Assets	(29,509)	(11,578)
Other, Net	4,301	10,155
Total Non-operating Revenues (Expenses)	3,554,721	1,728,032
Income (Loss) Before Capital Contributions	2,602,973	373,568
Capital Contributions from Member Agencies:		
Capital Improvement	-	531,624
Change in Net Position	2,602,973	905,192
Total Net Position, Beginning	26,233,298	25,328,106
Total Net Position, Ending	\$ 28,836,271	\$ 26,233,298

The accompanying notes are an integral part of this statements.

**Water Facilities Authority - Joint Powers Agency**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Member Agencies	\$ 23,064,394	\$ 24,770,315
Payments for Source of Supply Purchases	(20,047,466)	(21,033,667)
Payments to Vendors for Materials and Services	(1,784,709)	(2,426,434)
Payments to Employees for Salaries	(696,691)	(685,878)
	<u>535,528</u>	<u>624,336</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Non-capital Member Agencies Contributions	3,475,033	1,278,808
Proceeds from Rental Revenue - Cellular Antenna	83,968	79,685
Other, Net	4,301	118,240
	<u>3,563,302</u>	<u>1,476,733</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Member Agencies Capital Contributions	-	531,624
Insurance Proceeds	-	124,496
Acquisition and Construction of Capital Assets	(2,226,244)	(659,832)
	<u>(2,226,244)</u>	<u>(3,712)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Interest Income on Cash and Cash Equivalents</b>		
Interest Income on Cash and Cash Equivalents	27,874	141,612
	<u>27,874</u>	<u>141,612</u>
Net Cash Provided By (Used For) Investing Activities	27,874	141,612
Net Increase (Decrease) in Cash and Cash Equivalents	1,900,460	2,238,969
Cash and Cash Equivalents - Beginning	8,807,343	6,568,374
Cash and Cash Equivalents - Ending	<u>\$ 10,707,803</u>	<u>\$ 8,807,343</u>

Continued

The accompanying notes are an integral part of this statements.

**Water Facilities Authority - Joint Powers Agency**  
**Statements of Cash Flows - Continued**  
**For the Years Ended June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows</b>		
<b>Provided By (Used For) Operating Activities:</b>		
Operating Income (Loss)	\$ (951,748)	\$ (1,354,464)
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	1,214,090	1,191,076
(Increase) Decrease in Unearned Revenue		
(Increase) Decrease in Accounts Receivable	(1,023,364)	100,360
(Increase) Decrease in Prepaid Expenses and Deposits	494,417	(494,417)
(Increase) Decrease in Deferred Outflows	(20,017)	(23,971)
Increase (Decrease) in Accounts Payable and Accrued Expenses	700,906	1,041,108
Increase (Decrease) in Accrued Wages and Compensated Absences	11,955	3,845
Increase (Decrease) in Other than Pension Obligation Benefits	7,874	11,393
Increase (Decrease) in Net Pension Liability	118,504	123,180
Increase (Decrease) in Deferred Inflows	(17,089)	26,226
	<u>\$ 535,528</u>	<u>\$ 624,336</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 535,528</u>	<u>\$ 624,336</u>

The accompanying notes are an integral part of this statements.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) Reporting Entity**

The Water Facility Authority - Joint Powers Agency (the "Authority") is a special Authority which was created under a joint exercise of powers agreement under Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California. It was formed on February 19, 1980 for the purpose of acquisition and construction of facilities to supply potable water to the inhabitants of lands within the boundaries of its members. The members of the Authority are: The City of Chino, the City of Ontario, the City of Upland, the City of Chino Hills and the Monte Vista Water District.

The Board of Directors is the governing body of the Authority. Each member of the Authority appoints, by Resolution of its governing body, one member of its governing body to act as its Director on the Board.

**B) Basis of Accounting and Measurement Focus**

The Authority 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 Authority is that the costs of providing water to its member agencies on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants 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, such as water sales, result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the Authority gives (receives) value without directly receiving (giving) value in exchange.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

**C) Accounting Pronouncements**

The financial statements of the Authority are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting.

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

Governmental Accounting Standard Board Statement No. 90

In August of 2018, GASB issued Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. This Statement was issued to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C) Accounting Pronouncements – Continued**

Governmental Accounting Standard Board Statement No. 90 - Continued

investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Statement No. 90 is effective for fiscal years beginning after December 15, 2018. Due to the COVID-19 pandemic, GASB No. 95 delayed the implementation of this Statement by one year for reporting periods beginning after December 15, 2019. Currently, this statement has no effect on the Authority's financial statements.

**D) 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, deferred outflows of resources, liabilities and deferred inflows of resources 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.

**E) Cash and Cash Equivalents**

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

**F) Investments and Investment Policy**

The Authority maintains its cash and investments in accordance with an investment policy adopted by its Board of Directors. The investment policy is in compliance with California state statutes. The Authority's investment policy authorizes investments in the following securities:

- Securities of the U.S. government or its agencies
- Banker's acceptances
- Certificates of deposits (negotiable)
- Commercial paper (prime)
- Repurchase agreements
- Money market mutual funds and mutual fund accounts
- Passbook savings and demand deposit accounts (collateralized)
- State of California Local Agency Investment Fund (LAIF)
- Investment Trust of California - CalTrust

LAIF is regulated by California Government Code (Code) Section 16429 and is under the management of the State of California Treasurer's Office with oversight provided by the Local Agency Investment Advisory Board.

LAIF is carried at fair value based on the value of each participating dollar as provided by LAIF. The fair value of the Authority's position in the LAIF is the same as the value of its pooled share. Investments in securities of the U.S.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F) Investments and Investment Policy - Continued**

government or its agencies are carried at fair value based on quoted market prices. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the Authority's deposits with the bank in accordance with the Code.

The Investment Trust of California - CalTrust is organized as a Joint Powers Authority. CalTrust is a program established by public agencies in California for the purpose of pooling and investing local agency funds - operating reserves as well as bond proceeds. Any California local agency may participate in the Trust and invest its funds, and in the case of counties, the funds of other local agencies that have invested with the County Treasurer's office. Funds from all participants are pooled in each of the accounts. Participants receive units in the Trust and designated shares for the particular account in which they invest. CalTrust invests in fixed income securities eligible for investment pursuant to

California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. Leveraging within the Trust's portfolio is prohibited.

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

**G) Accounts Receivable and Allowance for Uncollectible Accounts**

The Authority extends credit to its members in the normal course of operations. The Authority considers accounts receivable from its members to be fully collectible; accordingly, no allowances for doubtful accounts are required.

**H) 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.

**I) Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. Authority policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donations. 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 calculated using the straight-line method over the following estimated useful lives:

Buildings and Structures	40 Years
Improvements Other than Buildings	5-50 Years
Machinery and Equipment	5-20 Years

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**J) Compensated Absences**

The Authority's policy is to permit employees to accumulate earned vacation and personal leave time. No employee is allowed to accrue vacation leave in excess of two (2) full years of their particular vacation schedule. Personal leave time that is not used shall accumulate during subsequent years up to a maximum of 176 hours each up to the first pay period in December each year. Any personal leave time in excess of 176 hours at the first pay period in December each year shall be paid to the employee at the employee's regular rate of pay.

**K) Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

June 30, 2021

June 30, 2020

Valuation Date: June 30, 2019

Valuation Date: June 30, 2018

Measurement Date: June 30, 2020

Measurement Date: June 30, 2019

Measurement Period: July 1, 2019 to June 30, 2020

Measurement Period: July 1, 2018 to June 30, 2019

**L) Other Post-Employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date

June 30, 2020

Measurement Date

June 30, 2020

Measurement Period

July 1, 2019 to June 30, 2020

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**M) Deferred Outflows / Inflows of Resources**

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category as pension related items, which is primarily related to contributions subsequent to the measurement date of the pension plan.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one item that qualifies for reporting in this category. Accordingly, the pension related items are deferred and recognized as an inflow of resources in the period that the amounts become available.

**N) Net Position**

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

- Net Investment in Capital Assets Component of Net Position - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted Component of Net Position - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Component of Net Position - This component of net position is the net amount of the 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 component of net position.

**O) Water Sales**

Water sales are billed on a monthly cyclical basis and are recognized as they are earned.

**P) Capital and Other Contributions**

Capital contributions represent cash and capital asset additions contributed to the Authority by its member agencies or granting agencies. Contributions received for studies and other non-capital assets are considered non-operating revenues.

**Q) Budgetary Policies**

Prior to June 30<sup>th</sup> each fiscal year, the Authority adopts an annual appropriated budget for planning, control, and evaluation purposes. The budget includes proposed expenses and the means of financing them. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Q) Budgetary Policies - Continued**

the period. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the year. Actual expenses may not exceed budgeted appropriations, except by 2/3 vote of the Board. Formal budgetary integration is employed as a management control device during the year. The Joint Powers Agreement requires the preparation of annual budget, but the Authority is not legally required to report on the budget approved. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

**2) CASH AND INVESTMENTS**

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

	2021	2020
Cash and Cash Equivalents	\$ 10,707,803	\$ 8,807,343
Total Cash and Investments	\$ 10,707,803	\$ 8,807,343

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

	2021	2020
Cash on Hand	\$ 500	\$ 500
Deposits Held with Financial Institutions	1,952,193	236,793
Deposits Held with California Local Agency Investment Fund (LAIF)	2,396,738	3,692,683
Deposits Held with Cal Trust - Short Term Fund	563,415	561,781
Deposits Held with Cal Trust - Medium Term Fund	5,794,957	4,315,586
Total Cash and Investments	\$ 10,707,803	\$ 8,807,343

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

	2021	2020
Deposits held with California Local Agency Investment Fund (LAIF)	291 days	191 days
Deposits held with Cal Trust - Short Term Fund	318 days	307 days
Deposits held with Cal Trust - Medium Term Fund	756 days	770 days

**Authorized Deposits and Investments**

Under provisions of the Authority's investment policy, and in accordance with Section 53601 of the California Government Code, the Authority may invest in certain types of investments as listed in Note 1(F) to the financial statements.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**2) CASH AND INVESTMENTS - Continued**

**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 California Government Code and the Authority's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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. Of the Authority's deposits held at banks 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 Authority's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the Authority's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. 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 and Cal Trust).

**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 an investment has the greater its fair value has sensitivity to changes in market interest rates. The Authority's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

**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; however, LAIF and Cal Trust are not rated.

**Concentration of Credit Risk**

The Authority's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The Authority's deposit portfolio with governmental agencies, LAIF and CalTrust, is 22% and 59% for 2021, respectively, and 42% and 55% for 2020, respectively, of the Authority's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the Authority's total investments.

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**3) FAIR VALUE MEASUREMENTS**

Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurements and Application, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value with Level 1 given the highest priority and Level 3 the lowest priority. The three levels of the fair value hierarchy are as follows:

*Level 1* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access at the measurement date.

*Level 2* inputs are inputs other than quoted prices included within *Level 1* that are observable for the asset or liability, either directly or indirectly. *Level 2* inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active.
- c. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates).
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

*Level 3* inputs are unobservable inputs for the asset or liability.

Fair value of assets measured on a recurring basis at June 30, 2021, are as follows:

<u>June 30, 2021</u>	<u>Fair Value</u>	<u>Uncategorized</u>
California Local Agency Investment Fund	\$ 2,396,738	\$ 2,396,738
CalTrust - Short Term Fund	563,415	563,415
CalTrust - Medium Term Fund	<u>5,794,957</u>	<u>5,794,957</u>
<b>TOTALS</b>	<u>\$ 8,755,110</u>	<u>\$ 8,755,110</u>

Fair value of assets measured on a recurring basis at June 30, 2020, are as follows:

<u>June 30, 2020</u>	<u>Fair Value</u>	<u>Uncategorized</u>
California Local Agency Investment Fund	\$ 3,692,683	\$ 3,692,683
CalTrust - Short Term Fund	561,781	561,781
CalTrust - Medium Term Fund	<u>4,315,586</u>	<u>4,315,586</u>
<b>TOTALS</b>	<u>\$ 8,570,050</u>	<u>\$ 8,570,050</u>

Investments do not fall under the fair value hierarchy (i.e. uncategorized) as there is no active market for the investments.

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**4) CAPITAL ASSETS**

The Agua de Lejos Water Treatment Plant consists of an 81 million gallon per day (MGD) water treatment plant, allied transmission pipelines and one energy recovery station. The Authority entered into separate construction contracts for each component of the treatment plant project.

At the end of fiscal years 2021 and 2020, the Authority's investment in capital assets amounted to \$20,439,024 and \$19,456,379 (net of accumulated depreciation), respectively. These investments in capital assets, includes the Authority's water treatment plant and equipment. Major capital assets additions during the years included various upgrades to the filtration plant and equipment. Total capital asset additions for 2021 and 2020 amounted to \$180,971 and \$648,580, respectively.

The following is a summary of changes in Capital Assets for the year ended June 30, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, Not Depreciated:				
Land	\$ 485,971	\$ -	\$ -	\$ 485,971
Construction in Progress	<u>26,970</u>	<u>2,045,273</u>	<u>-</u>	<u>2,072,243</u>
Total Capital Assets, Not Depreciated	<u>512,941</u>	<u>2,045,273</u>	<u>-</u>	<u>2,558,214</u>
Capital Assets, Being Depreciated:				
Water Treatment Plant and Facilities	45,872,413	-	2,649	45,869,763
Machinery and Equipment	<u>3,064,915</u>	<u>180,971</u>	<u>418,424</u>	<u>2,827,463</u>
Total Capital Assets Being Depreciated	<u>48,937,328</u>	<u>180,971</u>	<u>421,073</u>	<u>48,697,226</u>
Less Accumulated Depreciation:				
Water Treatment Plant and Facilities	(28,252,467)	(1,055,700)	(2,384)	(29,305,783)
Machinery and Equipment	<u>(1,741,423)</u>	<u>(158,390)</u>	<u>(389,180)</u>	<u>(1,510,633)</u>
Total Accumulated Depreciation	<u>(29,993,890)</u>	<u>(1,214,090)</u>	<u>(391,564)</u>	<u>(30,816,416)</u>
Total Capital Assets Being Depreciated, Net	<u>18,943,438</u>	<u>(1,033,119)</u>	<u>29,509</u>	<u>17,880,810</u>
Total Capital Assets, Net	<u>\$ 19,456,379</u>	<u>\$ 1,012,154</u>	<u>\$ 29,509</u>	<u>\$ 20,439,024</u>

**Water Facilities Authority - Joint Powers Agency**  
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**4) CAPITAL ASSETS - Continued**

The following is a summary of changes in Capital Assets for the year ended June 30, 2020:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated:				
Land	\$ 485,971	\$ -	\$ -	\$ 485,971
Construction in Progress	<u>14,430</u>	<u>12,540</u>	<u>-</u>	<u>26,970</u>
Total Capital Assets, Not Depreciated	<u>500,401</u>	<u>12,540</u>	<u>-</u>	<u>512,941</u>
Capital Assets, Being Depreciated:				
Water Treatment Plant and Facilities	45,872,413	-	-	45,872,413
Machinery and Equipment	<u>2,495,317</u>	<u>648,580</u>	<u>78,982</u>	<u>3,064,915</u>
Total Capital Assets Being Depreciated	<u>48,367,730</u>	<u>648,580</u>	<u>78,982</u>	<u>48,937,328</u>
Less Accumulated Depreciation:				
Water Treatment Plant and Facilities	(27,196,767)	(1,055,700)	-	(28,252,467)
Machinery and Equipment	<u>(1,672,163)</u>	<u>(135,376)</u>	<u>(66,116)</u>	<u>(1,741,423)</u>
Total Accumulated Depreciation	<u>(28,868,930)</u>	<u>(1,191,076)</u>	<u>(66,116)</u>	<u>(29,993,890)</u>
Total Capital Assets Being Depreciated, Net	<u>19,498,800</u>	<u>(542,496)</u>	<u>12,866</u>	<u>18,943,438</u>
Total Capital Assets, Net	<u>\$ 19,999,201</u>	<u>\$ (529,956)</u>	<u>\$ 12,866</u>	<u>\$ 19,456,379</u>

**5) COMPENSATED ABSENCES**

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The Authority's liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30, 2021 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<u>\$ 144,015</u>	<u>\$ 113,791</u>	<u>\$ (104,220)</u>	<u>\$ 153,586</u>	<u>\$ 38,396</u>

The changes to compensated absences balances at June 30, 2020 were as follows:

Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<u>\$ 117,357</u>	<u>\$ 116,897</u>	<u>\$ (90,239)</u>	<u>\$ 144,015</u>	<u>\$ 36,004</u>

**Water Facilities Authority - Joint Powers Agency**  
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**6) OTHER POST-EMPLOYMENT BENEFITS PAYABLE**

The Authority provides other post-employment benefits (OPEB) to qualified employees who retire from the Authority and meet the Authority’s vesting requirements.

**Background**

The CalPERS Health Benefits Program is governed by the Public Employees’ Medical and Hospital Care Act (PEMHCA) of the California Public Employees’ Retirement Law. The program was established in 1962 to purchase health care for employees of the State of California. In 1976, legislation was passed to allow other public employers, such as cities, counties, and school districts to join the program.

Contracting Public Agencies must offer all eligible active and retired employees an opportunity to enroll in a CALPERS health plan of their choice. All employees are required by statute to contribute towards the cost of the health plan premium. Premiums and health plan benefits are approved annually by the CalPERS Board of Administration.

The CalPERS Health Benefits Program offers a choice of health plans to provide basic coverage to active employees and Supplement to Medicare and Managed Medicare coverage for retired members. Eligible enrollees can choose between a variety of Health Maintenance Organization, Preferred Provider Organization and employee association plans.

**Plan Description - Eligibility**

The Authority’s Retiree Health Plan is a single-employer defined benefit healthcare plan administered by the California Public Employees’ Retirement System (CalPERS). The Plan provides medical insurance benefits to eligible retirees and their dependents.

In accordance with Public Employee Retirement Law (Article 2), the Public Employees’ Retirement System Board of Administration has the responsibility to approve health benefit plans and may contract with carriers offering health benefit plans. The Board of Administration is responsible for adopting all rules and regulations, including scope and content of basic health plans. The California Government Code also defines certain rules for contract agencies to purchase health insurance benefits.

***Employees Covered***

As of June 30, 2021 valuation, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	8
Active Employee Dependents	7
Retirees	1
Retirees Dependents	1
<b>Total</b>	<b>17</b>

***Contributions***

The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2021, the Authority’s cash contributions to the plan were \$1,734.

**Water Facilities Authority - Joint Powers Agency**  
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**6) OTHER POST-EMPLOYMENT BENEFITS PAYABLE - Continued**

***Contributions - Continued***

The minimum employer contribution amounts, as set forth in GC 22892(b) of the Public Employees' Medical and Hospital Care Act (PEMHCA), is tied to the Medical Component of the Consumer Price Index (CPI). Mortality is based on tables from the National Center for Health Statistics ([www.cdc.gov](http://www.cdc.gov)). The expected rate of increase used for the minimum employer contributions in premiums is 2.85%.

***Net OPEB Liability***

The Authority's net OPEB liability was measured as of June 30, 2021 and 2020, respectively and the total OPEB liability used to calculate the net OPEB liability was determined by using the alternative measurement method based on the following methods and assumptions:

<u>Actuarial Assumptions</u>	<u>Measurement Date June 30, 2021</u>	<u>Measurement Date June 30, 2020</u>
Discount Rate	4.00%	4.00%
Inflation	4.00%	4.00%
Salary Increases	3.0% plus merit	3.0% plus merit
Investment Rate of Return	4.00%	4.00%
Mortality Rate <sup>(1)</sup>	See below	See below
Pre-Retirement Turnover <sup>(2)</sup>	See below	See below
Healthcare Trend Rate	2.85%	2.93%

Notes:

<sup>(1)</sup> Mortality is based on tables from National Center for Health Statistics website [www.cdc.gov](http://www.cdc.gov).

<sup>(2)</sup> The assumed age at retirement is the average age of retirement for employees of the Authority

**Funding Policy**

There is no requirement imposed by CalPERS to contribute any amount beyond the pay-as-you-go contributions. The cost of monthly insurance premiums is shared between the retiree and the Authority. The cost sharing varies depending upon the dependent status and plan selected. A minimum employer monthly contribution requirement is established and may be amended by the CalPERS Board of Administration and applicable laws.

***Discount Rate***

The discount rate used to measure the total OPEB liability was 4.00 percent. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projects benefit payments to determine the total OPEB liability.

**Water Facilities Authority - Joint Powers Agency**  
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**6) OTHER POST-EMPLOYMENT BENEFITS PAYABLE - Continued**

*Changes in the OPEB Liability*

The changes in the net OPEB liability for the Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
<b>Balance at June 30, 2020</b>	\$ 132,476	\$ -	\$ 132,476
<b>Changes Recognized for the Measurement Period:</b>			
Service Cost	4,267	-	4,267
Interest	5,299	-	5,299
Benefit Payments	(1,692)	-	(1,692)
Net Changes	7,874	-	7,874
<b>Balance at June 30, 2021</b>	<u>\$ 140,350</u>	<u>\$ -</u>	<u>\$ 140,350</u>

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
<b>Balance at June 30, 2019</b>	\$ 121,083	\$ -	\$ 121,083
<b>Changes Recognized for the Measurement Period:</b>			
Service Cost	8,200	-	8,200
Interest	4,843	-	4,843
Benefit Payments	(1,650)	-	(1,650)
Net Changes	11,393	-	11,393
<b>Balance at June 30, 2020</b>	<u>\$ 132,476</u>	<u>\$ -</u>	<u>\$ 132,476</u>

**Water Facilities Authority - Joint Powers Agency**  
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**6) OTHER POST-EMPLOYMENT BENEFITS PAYABLE - Continued**

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

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

	2021	2020
1% Decrease	3.00%	3.00%
Net OPEB Liability	\$ 159,572	\$ 134,465
Current Discount Rate	4.00%	4.00%
Net OPEB Liability	\$ 140,350	\$ 132,476
1% Increase	5.00%	5.00%
Net OPEB Liability	\$ 123,047	\$ 130,928

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

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

	2021	2020
1% Decrease	1.85%	1.93%
Net OPEB Liability	\$ 117,183	\$ 130,933
Current Healthcare Cost Trend Rates	2.85%	2.93%
	\$ 140,350	\$ 132,476
1% Increase	3.85%	3.93%
Net OPEB Liability	\$ 169,374	\$ 134,477

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

For the fiscal years ended June 30, 2021 and 2020, the Authority recognized OPEB expense of \$7,874 and \$11,393, respectively. As of the fiscal years ended June 30, 2021 and 2020, the Authority reported no deferred outflows/inflows of resources related to OPEB.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
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**7) DEFINED BENEFIT PENSION PLAN**

*Plan Descriptions*

All full-time employees are eligible to participate in the Authority's Miscellaneous Employee Pension Plan, a cost-sharing multiple employers defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Eligible employees hired after January 1, 2013 that are considered new members as defined by the Public Employees' Pension Reform Act (PEPRA) are participating in the PEPRA Miscellaneous Plan.

*Benefits Provided*

CalPERS, provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service as discussed above. Members with five years of total service are eligible to retire at age 50 or 52 if in the PEPRA Miscellaneous Plan with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The system also provides for the Optional Settlement 2W Death Benefit, as well as the 1959 Survivor Benefit. The cost-of-living adjustments for all plans are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the Authority's CalPERS 2.5% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the Authority's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Plans' provisions and benefits in effect at June 30, 2021 and 2020 are summarized as follows:

	<b>Miscellaneous Plan</b>	
	<b>Tier 1</b>	<b>Tier 2</b>
Hire Date	Prior to January 1, 2013	On or After January 1, 2013
Benefit Formula	2.5% at 55	2% at 62
Benefit Vesting Schedule	5 years service	5 years service
Benefit Payments	Monthly for life	Monthly for life
Retirement Age	50 - 55	52 - 67
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.5%	1.0% to 2.5%
Required Employee Contribution Rates	8%	6.75%
June 30, 2020:		
Required Employer Contribution Rates	12.361%	7.732%
June 30, 2019:		
Required Employer Contribution Rates	11.432%	6.985%

**Water Facilities Authority - Joint Powers Agency**  
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**7) DEFINED BENEFIT PENSION PLAN - Continued**

***Contributions***

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

As of the fiscal years ended June 30, 2021 and 2020 the contributions recognized as part of pension expense for the Plan was as follows:

	<b>Miscellaneous Plan</b>	
	2021	2020
Employer Paid Contributions	\$ 187,915	\$ 168,427

***Net Pension Liability***

As of the fiscal years ended June 30, 2021 and 2020, the Authority reported net pension liabilities for its proportionate share of the net pension liability of the Plan was as follows:

	<b>Proportionate Share of Net Pension Liability</b>	
	2021	2020
Miscellaneous Plan	\$ 1,506,278	\$ 1,387,774

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2020, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020, using standard update procedures. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Authority's proportionate share of the pension liability for the Plan as of June 30, 2021 and 2020 was as follows:

	<b>Miscellaneous Plan</b>	
	2021	2020
Beginning of Measurement Period	0.03466%	0.03356%
Ending of Measurement Period	0.03571%	0.03466%
Change - Increase (Decrease)	0.00105%	0.00110%

At June 30, 2021 and 2020, the Authority recorded pension expense of \$269,313 and \$293,861, respectively.

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**7) DEFINED BENEFIT PENSION PLAN - Continued**

*Deferred Pension Outflows (Inflows) of Resources*

As of the fiscal year ended June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 187,915	\$ -
Differences between actual and expected experience	77,623	-
Change in assumptions	-	(10,743)
Differences between the employer's contributions and the employer's proportionate share of contributions	-	(39,101)
Net differences between projected and actual earnings on plan investments	44,746	-
Change in Employer's Proportion	47,883	-
	\$ 358,167	\$ (49,844)
Total		

As of June 30, 2021, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$187,915 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022.

At June 30, 2021, the Authority recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflow of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2022	\$ 18,038
2023	45,676
2024	35,232
2025	21,462
2026	-
	\$ 120,408

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**7) DEFINED BENEFIT PENSION PLAN - Continued**

*Deferred Pension Outflows (Inflows) of Resources*

As of the fiscal year ended June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 168,427	\$ -
Differences between actual and expected experience	88,919	-
Change in assumptions	42,717	-
Differences between the employer's contributions and the employer's proportionate share of contributions	-	(42,670)
Net differences between projected and actual earnings on plan investments	-	(24,263)
Change in Employer's Proportion	38,087	-
Total	\$ 338,150	\$ (66,933)

As of June 30, 2020, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$168,427 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

At June 30, 2020, the Authority recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflow of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	\$ 98,903
2022	(13,982)
2023	12,967
2024	4,902
2025	-
	\$ 102,790

**Water Facilities Authority - Joint Powers Agency**  
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**7) DEFINED BENEFIT PENSION PLAN - Continued**

*Actuarial Assumptions*

The total pension liabilities in the June 30, 2019 actuarial valuation report was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry-Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

\* The mortality table used was developed based on CalPERS' special data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by Society of Actuaries. For more details on this table, please refer to CalPERS Experience Study and review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

The total pension liabilities in the June 30, 2018 actuarial valuation report was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry-Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter

\* The mortality table used was developed based on CalPERS' special data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

**Water Facilities Authority - Joint Powers Agency**  
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**7) DEFINED BENEFIT PENSION PLAN - Continued**

*Discount Rate*

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrator expense. The 7.00 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2018-19 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above the rounded down to the nearest one quarter of one percent.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**7) DEFINED BENEFIT PENSION PLAN - Continued**

***Discount Rate - Continued***

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class <sup>1</sup>	Assumed Asset Allocation	Real Return Years 1 - 10 <sup>2</sup>	Real Return Years 11+ <sup>3</sup>
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	-	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	-	(0.92)%
Total	100%		

<sup>1</sup> In the Plan System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

<sup>2</sup> An expected inflation of 2.00% used for this period.

<sup>3</sup> An expected inflation of 2.92% used for this period.

***Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the Authority for the Plan, calculated using the discount rate for the Plan, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	2021	2020
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 2,284,292	\$ 2,135,707
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 1,506,278	\$ 1,387,774
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 863,429	\$ 770,409

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See pages 45 through 46 for the Required Supplementary Schedules.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**8) NET POSITION**

Calculation of net position as of June 30, 2021 and 2020 consists of the following:

	2021	2020
Net Investment in Capital Assets:		
Capital Assets, Net	\$ 20,439,024	\$ 19,456,379
Total Net Investment in Capital Assets	20,439,024	19,456,379
Unrestricted Net Position	8,397,247	6,776,919
Total Net Position	\$ 28,836,271	\$ 26,233,298

**9) CONTRIBUTED CAPITAL**

Capital contributions include payments from members for debt service principal, and payments to fund current and future capital expenditures. Current year capital contributions are included as a change in net position.

Changes in contributed capital amounts for the current year were as follows:

Participants	Beginning Balance	Additions	Deletions	Ending Balance
Chino	\$ 6,693,894	\$ -	\$ -	\$ 6,693,894
Monte Vista Water District	6,986,722	-	-	6,986,722
Ontario	14,725,941	-	-	14,725,941
Upland	8,545,801	-	-	8,545,801
Chino Hills	5,520,600	-	-	5,520,600
Non-Participants	117,703	-	-	117,703
Total	\$ 42,590,661	\$ -	\$ -	\$ 42,590,661

Changes in contributed capital amounts for the prior year were as follows:

Participants	Beginning Balance	Additions	Deletions	Ending Balance
Chino	\$ 6,662,528	\$ 31,366	\$ -	\$ 6,693,894
Monte Vista Water District	6,859,132	127,590	-	6,986,722
Ontario	14,559,011	166,930	-	14,725,941
Upland	8,423,528	122,273	-	8,545,801
Chino Hills	5,437,135	83,465	-	5,520,600
Non-Participants	117,703	-	-	117,703
Total	\$ 42,059,037	\$ 531,624	\$ -	\$ 42,590,661

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**10) DEFERRED COMPENSATION SAVINGS PLAN**

For the benefit of its employees, the Authority participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Authority is in compliance with this legislation. Therefore, these assets are not the legal property of the Authority, and are not subject to claims of the Authority's general creditors. Market value of all plan assets held in trust by ICMA Retirement Corporation was \$2,453,503 and \$1,450,295 at June 30, 2021 and 2020, respectively.

The Authority, under GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, since the Authority has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

**11) RISK MANAGEMENT**

In accordance with the 1997 Installment Purchase agreement, the Authority carries property coverage on all above-ground structures. In addition, separate policies have been obtained for automobiles and liability coverage. Workers' compensation coverage is provided by the Special District Risk Management Authority. Business interruption coverage with a lender's loss payable endorsement is also in force. SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. Accordingly, the Authority retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

**12) GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED BUT NOT EFFECTIVE**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2021, that have effective dates that may impact future financial presentation:

Governmental Accounting Standard Board Statement No. 87

In June of 2017, GASB issued Statement No. 87, *Leases*. The intent of this Statement is to improve accounting and financial reporting for government leases by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for reporting periods beginning after December 15, 2019. Due to the COVID-19 pandemic, GASB No. 95 delayed the implementation of this Statement for reporting periods beginning after June 15, 2021. The Authority has elected not to early implement GASB No. 87 and has not determined its effect on the Authority's financial statements.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**12) GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED BUT NOT EFFECTIVE -  
Continued**

Governmental Accounting Standard Board Statement No. 89

In June of 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement was issued to (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement 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. Statement No. 89 is effective for fiscal years beginning after December 15, 2019. Due to the COVID-19 pandemic, GASB No. 95 delayed the implementation of this Statement by one year for reporting periods beginning after December 15, 2020. The Authority has elected not to early implement GASB No. 89 and has not determined its effect on the Authority's financial statements.

Governmental Accounting Standard Board Statement No. 91

In May of 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement was issued to improve financial reporting for certain debt obligations. It allowed entities 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. Statement No. 91 is effective for fiscal years beginning December 15, 2020. Due to the COVID-19 pandemic, GASB No. 95 delayed the implementation of this Statement by one year for reporting periods beginning after December 15, 2021. The Authority has elected not to early implement GASB No. 91 and has not determined its effect on the Authority's financial statements.

Governmental Accounting Standard Board Statement No. 92

In January of 2020, GASB issued Statement No. 92, *Omnibus 2020*. This statement was issued 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. This includes GASB Statement No. 87, GASB Statement No. 73, GASB Statement No. 74, GASB Statement No. 84 and the measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition as well as other specific provisions. The requirements related to GASB Statement No. 87 are effective upon the issuance date of Statement No. 92. All other requirements are effective for reporting periods beginning after June 15, 2020. Due to the COVID-19 pandemic, GASB Statement No. 95 delayed the implementation of this GASB Statement for paragraphs 6-10 and 12 for reporting periods beginning after June 15, 2021. The Authority's has elected not to early implement GASB No. 92 and has not determined its effect on the Authority's financial statements.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**12) GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED BUT NOT EFFECTIVE -  
Continued**

Governmental Accounting Standard Board Statement No. 93

In March of 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address those and other accounting and financial reporting implications that results from the replacement of an Interbank Offered Rates (IBOR). The removal of the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements are effective for reporting periods beginning after June 15, 2020. Due to the COVID-19 pandemic, GASB Statement No. 95 delayed the implementation of this GASB Statement for paragraphs 13 and 14 for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The Authority has elected not to early implement GASB No. 93 and has not determined its effect on the Authority's financial statements.

Governmental Accounting Standard Board Statement No. 94

In March of 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). Statement No. 94 is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Authority has elected not to early implement GASB No. 94 and has not determined its effect on the Authority's financial statements.

Governmental Accounting Standard Board Statement No. 96

In May of 2020, 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 arrangement (SBITAs) for government end users (governments). Statement No. 95 is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The Authority has elected not to early implement GASB No. 96 and has not determined its effect on the Authority's financial statements.

Governmental Accounting Standard Board Statement No. 97

In June of 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The objective of this statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units; (2) mitigate costs associated with the reporting of certain defined pension and OPEB plans as fiduciary component units; and (3) enhance the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation 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. All other requirements are effective for fiscal years beginning after June 15, 2021. The Authority has elected not to early implement GASB No. 97 and has not determined its effect on the Authority's financial statements

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**13) COMMITMENTS AND CONTINGENCIES**

**Construction Contracts**

The Authority has a variety of agreements with private parties relating to the installation, improvement or modifications of the water treatment facilities and distribution systems. The financing of such construction contracts is being provided primarily from the Authority's capital outlay reserves and/or capital contributions. At June 30, 2021, the Authority does not have any construction contracts in effect.

**Litigation**

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

**14) OTHER DISCLOSURES - CHARGES TO MEMBER AGENCIES**

Ten distinct types of charges will be made to each participating agency in accordance with Authority's Ordinance 2010-07-01. These are as follows:

- Debt service to pay for the capital investment required for the treatment plant.
- Debt service to pay for capital investment required for project costs not related to the treatment plant.
- General and administrative costs.
- Indirect operating costs to maintain plant readiness.
- Cost of purchasing raw water
- Direct operating costs for treatment and delivery.
- Capacity charges
- Unsubscribed capacity user fees
- Component maintenance.
- Capital replacement and improvement costs.

Payments for the Capital Investment Required for Treatment Plant. The final cost of the treatment plant is allocated among the Member Agencies based on percent entitlement of the treatment plant. The percentage entitlement of treatment capacity (mgd) of each Member Agency is:

City of Upland	23.0%
Monte Vista Water District	24.0%
City of Ontario	31.4%
City of Chino	5.9%
City of Chino Hills	15.7%

Payments for the Capital Investment Required for Project Costs Not Related to the Treatment Plant. The final costs of the non-treatment plant components when allocated among the Member Agencies in accordance with pertinent Authority's Resolutions will produce a percentage of the total non-treatment plant cost for Member Agencies. Payments for these costs will be made quarterly in advance.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**14) OTHER DISCLOSURES - CHARGES TO MEMBER AGENCIES - Continued**

General and Administrative Costs for the Authority. This cost category includes all items not directly related to the treatment of water. These costs are allocated based upon percent entitlement of the treatment plant of each Member Agency. General and administrative costs are estimated at the beginning of each fiscal year as part of the regular budget. The account of each Member Agency is adjusted as necessary to reflect the actual general and administrative related expenditures at the end of each fiscal year.

Indirect Operating Costs to Maintain Plant Readiness. This cost category includes those costs that maintain a state of plant readiness with the ability to serve any Member Agency upon demand and would be incurred if the plant was serving “0” cfs or mgd. Indirect operating costs are estimated at the beginning of each fiscal year as part of the regular budget process. The cost will be allocated to the Member Agencies based on each Agency’s percentage of the 10 YRA on a monthly basis. Adjustments in billing are made at the end of the fiscal year based upon actual water sales.

Cost of Purchasing Raw Water for Treatment. Each Member Agency is charged for purchasing untreated water from Metropolitan Water District through Inland Empire Utilities Agency. Internally, the Authority has developed an allocation formula for distributing available imported water supplies among its member agencies.

Direct Operating Costs. For treatment and delivery, all costs directly related to the quantities of water treated are included in this category. At the beginning of each fiscal year, an estimate of a direct operating acre foot cost is made and applied to all water deliveries during the fiscal year on a monthly basis. The account of each Member Agency is adjusted as necessary to reflect the actual water treatment and delivery related expenditures at the end of each fiscal year.

Capacity Charges. The capacity charge is based on the Authority’s highest 24-hour peak day flow between May 1<sup>st</sup> and September 30<sup>th</sup>, identified by Inland Empire Utilities Agency for the trailing three year period with a one year lag, allocated to each Member Agency based on their percentage of average water deliveries in the 10YRA.

Unsubscribed Capacity User Fees. Any Member Agency utilizing unsubscribed capacity will pay, on an acre-foot basis, both the Indirect Operating Cost and the Direct Operating Cost, including the cost to purchase the water. In addition, users of unsubscribed capacity will pay capital replacement fund charges associated with the increase in water deliveries as well as a proportionate share of the general and administrative costs and a capital improvement cost component which represents the original capital value of the assets being used to treat and deliver the additional water. Fees collected will be distributed, on a quarterly basis, to those Member Agencies that did not use their full monthly Treatment Plan entitlement.

Component Maintenance. Maintenance expenses that are not capital replacement costs covered in Fund No. 4 of non-treatment plant components as identified in Ordinance 97-05-01, or in any ordinance superseding that Ordinance, shall be charged to the Member Agencies in proportion to their entitlement interest in the component.

Capital Replacement Costs. Payments for capital replacement projects are based upon the four funds identified below. The four funds have been estimated to facilitate payments for the replacement of equipment at the treatment plant and related facilities. The intent of the funds is to provide an equitable means of component replacement. Each component is included on one of four lists in the Authority’s Capital Replacement Plan, and members are assessed for the replacement of a component based on the funding method adopted for the list on which the component is located.

**Water Facilities Authority - Joint Powers Agency**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**14) OTHER DISCLOSURES - CHARGES TO MEMBER AGENCIES - Continued**

Capital Replacement Costs. – Continued

Fund 1 - Components that Wear with Flow Rate

Assessments to this fund are based upon actual water deliveries on a 10-year running average beginning Fiscal Year 1990 - 1991. The annual dollar amount is in accordance with the Capital Replacement Plan - List No. 1.

Fund 2 - Components that Experience Wear as a Result of the Treatment of Water but not correlated to Flow Rate.

Assessments for components in this fund are based upon a two-part formula. Half of the payment is based upon the percentage of water used by each Member Agency, using a 10-year running average. The remaining half of the payment is based upon percentage entitlement. The payments to the fund are corrected to actual on an annual basis. The annual dollar amount will be in accordance with List No. 2 of the California Replacement Program.

Fund 3 - Components that Experience Wear Totally Independent of Treatment of Water.

Annual assessments to this fund are based solely upon percent entitlement. The annual dollar amount will be in accordance with List No. 3 of the Capital Replacement Plan.

Fund 4 - Components at Each Member Agency's Distribution Pipeline and Turnout System.

Annual assessments to this fund are based upon the percentage identified in Ordinance 97-05-1 including any additional individual items identified on Capital Replacement Plan - List No. 4. The annual dollar amount will be in accordance with List No. 4 of the Capital Replacement Plan.

Capital Improvement Costs. Projects that substantially increase the capability or value of the treatment plant shall be referred to as Capital Improvement Projects. Funding for these projects shall be based upon entitlement unless otherwise specified by the Board of Directors.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**Water Facilities Authority - Joint Powers Authority**  
**Schedule of the Authority's Proportionate Share of the Net Pension Liability**  
**Last Ten Years\***  
**As of June 30, 2021**

Measurement Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.01256%	\$ 861,798	\$ 685,322	125.75%	78.40%
2016	0.01275%	\$ 1,103,122	\$ 711,351	155.07%	74.06%
2017	0.03273%	\$ 1,290,142	\$ 748,703	172.32%	74.33%
2018	0.03356%	\$ 1,264,594	\$ 755,100	167.47%	77.69%
2019	0.03466%	\$ 1,387,774	\$ 792,985	175.01%	77.73%
2020	0.03571%	\$ 1,506,728	\$ 800,520	188.22%	77.71%

\* Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only six years are shown.

**Water Facilities Authority - Joint Powers Authority**  
**Schedule of Contributions - Defined Benefit Pension Plan**  
**Last Ten Years\***  
**As of June 30, 2021**

Fiscal Year	Contractually Required Contribution (Actually Determined)	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 107,602	\$ (107,602)	\$ 0	\$ 685,322	15.701%
2016	\$ 68,096	\$ (68,096)	\$ 0	\$ 711,351	9.573%
2017	\$ 110,108	\$ (110,108)	\$ 0	\$ 672,848	16.364%
2018	\$ 122,090	\$ (122,090)	\$ 0	\$ 748,703	16.307%
2019	\$ 143,646	\$ (143,646)	\$ 0	\$ 755,100	19.023%
2020	\$ 168,427	\$ (168,427)	\$ 0	\$ 792,985	21.240%
2021	\$ 187,915	\$ (187,915)	\$ 0	\$ 800,520	23.474%

\* Fiscal year 2015 was the 1<sup>st</sup> year of implementation, therefore only seven years are shown.

**Water Facilities Authority - Joint Powers Authority**  
**Schedule of Changes in the Net OPEB Liability and Related**  
**Ratios for Measurement Periods**  
**Ended June 30, 2021**

Measurement Period	2021	2020	2019
<b>Total OPEB Liability</b>			
Service Cost	\$ 4,267	\$ 8,200	\$ 21,672
Interest on the Total OPEB Liability	5,299	4,843	3,886
Benefit Payments	(1,692)	(1,650)	(1,614)
<b>Net Change in Total OPEB Liability</b>	<b>7,874</b>	<b>11,393</b>	<b>23,944</b>
<b>Total OPEB Liability - Beginning</b>	<b>132,476</b>	<b>121,083</b>	<b>97,139</b>
<b>Total OPEB Liability - Ending (a)</b>	<b>\$ 140,350</b>	<b>\$ 132,476</b>	<b>\$ 121,083</b>
<b>Plan Fiduciary Net Position</b>			
Contribution - Employer	\$ -	\$ -	\$ -
Net Investment Income	-	-	-
Benefit Payments	-	-	-
Administrative Expense	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net OPEB Liability - Ending (a)-(b)</b>	<b>\$ 140,350</b>	<b>\$ 132,476</b>	<b>\$ 121,083</b>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0%	0%	0%
Covered Payroll	\$ 800,520	\$ 792,985	\$ 755,100
Net OPEB Liability as a Percentage of Covered Payroll	17.53%	16.71%	16.04%

**Notes to Schedule:**

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Water Facilities Authority - Joint Powers Authority**  
**Schedule of Contributions - OPEB**  
**Last Ten Fiscal Years'**

Fiscal Year Ended June 30,	<u>2021</u>	<u>2020</u>	<u>2019</u>
Actuarially Determined Contribution (ADC)	\$ 1,692	\$ 1,650	\$ 1,614
Contributions in Relation to the ADC	<u>(1,692)</u>	<u>(1,650)</u>	<u>(1,614)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 800,520	\$ 792,985	\$ 755,100
Contributions as a percentage of covered payroll	0.21%	0.21%	0.21%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2021 were from the June 30, 2021 actuarial valuation.

**Methods and assumptions used to determine contributions:**

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed rolling 30-year period
Asset Valuation Method	Market value
Inflation	4.00%
Payroll Growth	3.00% plus merit
Investment Rate of Return	4.00%
Healthcare Cost-trend Rates	2.85%
Retirement Age	Mortality is based on tables from National Center for Health Statistics website <a href="http://www.cdc.gov">www.cdc.gov</a> .
Mortality	The assumed age at retirement is the average age of retirement for employees of the Authority

Historical information is required only for measurement periods for which GASB 75 is applicable.

Future years' information will be displayed up to 10 years as information become available.

**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Board of Directors  
Water Facilities Authority - Joint Powers Agency  
Upland, 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 business-type activities of the Water Facilities Authority - Joint Powers Agency (the "Authority"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 16, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 Authority'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests

disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Seaman Ramirez & Smith, Inc.*

Riverside, California  
September 16, 2021

September 16, 2021

Board of Directors  
Water Facilities Authority - Joint Powers Agency  
Upland, California

We have audited the financial statements of the business-type activities of the Water Facilities Authority - Joint Powers Agency (the "Authority") for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 26, 2021. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year 2021. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the fair value of investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of capital assets depreciation is based on historical estimates of each capitalized item's useful life. We evaluated the key factors and assumptions used to develop the capital assets depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net other postemployment benefits (OPEB) obligation is based on an actuarial valuation. We evaluated the key factors and assumptions used to develop the net OPEB obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net defined benefit pension obligation is based on an actuarial valuation. We evaluated the key factors and assumptions used to develop the defined benefit pension obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the fair value of investments in Note 3 to the financial statements represents amounts susceptible to market fluctuation.

The disclosure of capital assets in Note 4 to the financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

The disclosure of other postemployment benefits and the net OPEB obligation in Note 6 to the financial statements represents management's estimate based on an actuarial valuation. Actual results could differ depending on the key factors and assumptions used for the actuarial valuation.

The disclosure of the defined benefit pension obligation in Note 7 to the financial statements represents Management's estimate based on key factors and assumptions. Actual results could differ depending on the key factors and assumptions used for the actuarial valuation.

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

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 16, 2021.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Authority’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the management discussion and analysis, and the required supplementary information section, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the introductory section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit to the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

As part of the audit, we assisted with the preparation of the financial statements and related notes. However, these services, does not constitute an audit under *Government Auditing Standards* and are considered nonaudit services. Management has reviewed, approved, and accepted responsibility for the results of these services.

### Restriction on Use

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

Very truly yours,

*Teaman Ramirez & Smith, Llc.*

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