Pajaro Valley Water Management Agency

Annual Financial Report

For the Fiscal Year Ended June 30, 2021

Mission Statement

"Pajaro Valley Water Management Agency is a state-chartered water management district formed to efficiently and economically manage existing and supplemental water supplies in order to prevent further increase in, and to accomplish continuing reduction of, long-term overdraft. We also work to provide and ensure sufficient water supplies for present and future anticipated needs within our boundaries, generally the greater coastal Pajaro Valley."

Pajaro Valley Water Management Agency

Board of Directors as of June 30, 2021

Name	Title	Elected/ Appointed	Area Served
Amy Newell	Chair	Elected	Division C
Bob Culbertson	Vice Chair	Elected	Division D
Stephen Rider	Treasurer	Elected	Division B
Mary Bannister	Director	Elected	Division A
Javier Zamora	Director	Appointed	County of Monterey
Tom Broz	Director	Appointed	County of Santa Cruz
Vacant	Director	Appointed	City of Watsonville

Pajaro Valley Water Management Agency
Brian Lockwood, General Manager
36 Brennan Street
Watsonville, California 95076-4303
(831) 722-9292 – www.pvwater.org

Pajaro Valley Water Management Agency

Annual Financial Report

For the Fiscal Year Ended June 30, 2021

Pajaro Valley Water Management Agency
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For the Fiscal Year Ended June 30, 2021

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Financial Section

Independent Auditor's Report

Board of Directors
Pajaro Valley Water Management Agency
Watsonville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pajaro Valley Water Management Agency (Agency), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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; 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 governmental activities and each major fund as of June 30, 2021, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 42 through 49 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2021, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance. This report can be found on pages 50 and 51.

Fedak & Brown LLP
Cypress, California
December 22, 2021

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

Financial Highlights

- The Agency's net position increased 13.05% or $8,731,285 to $75,620,517 from ongoing operations.
- The Agency's total revenues increased 30.07% or $4,434,197 to $19,178,569.
- The Agency's total expenses increased 8.01%, or $774,758 to $10,447,284.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the Agency'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 Agency, and assessing the liquidity and financial flexibility of the Agency. All of the year's revenues and expenses are accounted for in the Statement of Activities. This statement can be used to determine the Agency's net operating reserves and credit worthiness.

Government-wide Financial Statements

Statement of Net Position and Statement of Activities

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Agency in a way that helps answer this question. These statements use the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. These two statements report the Agency's *net position* and changes in it. Think of the Agency's net position – assets and deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the Agency's financial health or *financial position*. Over time, *increases or decreases* in the Agency's net position is one indicator of whether its *financial health* is improving or deteriorating; however, one will need to consider other non-financial factors to assess the *overall health* of the Agency.

Governmental Fund Financial Statements

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Governmental Fund Financial Statements, continued

Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance, continued

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains four individual governmental funds. Information is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance for the General, Special Revenue, Capital Projects, and Debt Service funds.

The fund financial statements can be found on pages 11 through 14 of this report.

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 41.

Government-wide Financial Analysis

A summary of the Statements of Net Position is as follows:

Condensed Statements of Net Position

	2021	2020	Change
Assets:			
Current assets	$ 22,197,975	17,221,353	4,976,622
Capital assets, net	81,887,888	80,370,466	1,517,422
Total assets	104,085,863	97,591,819	6,494,044
Deferred outflows of resources	353,818	370,789	(16,971)
Liabilities:			
Current liabilities	4,861,401	5,989,153	(1,127,752)
Non-current liabilities	23,947,672	25,061,627	(1,113,955)
Total liabilities	28,809,073	31,050,780	(2,241,707)
Deferred inflows of resources	10,091	22,596	(12,505)
Net position:			
Net investment in capital assets	57,065,540	54,393,386	2,672,154
Restricted	254,139	253,939	200
Unrestricted	18,300,838	12,241,907	6,058,931
Total net position	$ 75,620,517	66,889,232	8,731,285

Government-wide Financial Analysis, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $75,620,517 as of June 30, 2021. A large portion of the Agency's net position ($57,065,540 or 75.46%) reflects its investment in capital assets (net of accumulated depreciation); less any related debt used to acquire those assets that are still outstanding. The Agency uses these capital assets for operations; consequently, these assets are *not* available for future spending. At the end of fiscal year 2021, the Agency reflected a positive balance in its unrestricted net position of $18,300,838 that may be utilized in future years. See note 10 to the financial statements for further information.

A summary of the Statements of Activities is as follows:

Condensed Statements of Activities

	2021	2020	Change
Revenues:			
Program revenues:			
Charge for services	$ 14,212,182	13,723,433	488,749
Capital grants and contributions	4,551,434	413,659	4,137,775
Total program revenues	18,763,616	14,137,092	4,626,524
General revenues:			
Management fees	387,333	283,614	103,719
Investment earnings	7,750	294,545	(286,795)
Other revenues	19,870	29,121	(9,251)
Total general revenues	414,953	607,280	(192,327)
Total revenues	19,178,569	14,744,372	4,434,197
Expenses:			
Water basin management	9,738,959	8,866,526	872,433
Interest on long-term debt	708,325	806,000	(97,675)
Total expenses	10,447,284	9,672,526	774,758
Changes in net position	8,731,285	5,071,846	3,659,439
Net position, beginning of year	66,889,232	61,817,386	5,071,846
Net position, end of year	$ 75,620,517	66,889,232	8,731,285

The Statement of Activities shows how the Agency's net position changed during the fiscal year. In the case of the Agency, net position increased 13.05% or $8,731,285 to $75,620,517, as a result of ongoing operations.

Government-wide Financial Analysis, continued

The Agency's total revenues from all sources increased 30.07% or $4,434,197 to $19,178,569. Program revenues increased $4,626,524 due primarily to increases of $4,137,775 in capital grants and contributions and $488,749 in charges for services. General revenues decreased $192,327 due primarily to a decrease of $286,795 in investment earnings; which was offset by an increase of $103,719 in management fees.

The Agency's total expenses increased 8.01% or $774,758 to $10,447,284 due primarily to an increase of $872,433 in water basin management; which was offset by a decrease of $97,675 in interest on long-term debt.

Governmental Fund Financial Analysis

The following table is a summary of the changes in fund balance for all governmental funds for the year ended June 30, 2021:

Condensed Changes in Fund Balance - Governmental Fund

		General	Special Revenue	Capital Projects	Debt Service	Total Fund Balance
Fund balance, beginning of year	$	3,263,735	12,662,156	(2,150,504)	254,837	14,030,224
Changes in fund balance		265,741	4,467,274	1,455,468	(642)	6,187,841
Fund balance, end of year	$	3,529,476	17,129,430	(695,036)	254,195	20,218,065

In 2021, total fund balance increased by 44.10% or $6,187,841 to $20,218,065. The General fund increased by 8.14% or $265,741 to $3,529,476; the Special Revenue fund increased by 35.28% or $4,467,274 to $17,129,430; the Capital Projects fund increased by 67.68% or $1,455,468 to a deficit of $695,036; and the Debt Service fund decreased by 0.25% or $642 to $254,195.

Budgetary Highlights

The budget for fiscal year 2020-2021 is based on the following economic factors and assumptions:

Projected billed consumption of 53,800 acre feet (af) of water usage, that includes 49,000 acre feet of groundwater, and 4,800 acre feet of delivered water.

Current augmentation charges are $246/af of pumped groundwater outside the delivered water zone. Within the delivered water zone, the pumped ground water charge is $338/af, and the delivered water charge is $392/af. Rural residential users with unmetered wells pay an estimated 0.5 af/year of water usage at a rate of $115 per residence.

The final actual expenditures for the year ended June 30, 2021 was less than budgeted by $123.729 for the General Fund, less than budgeted by $751,438 for the Special Revenue fund, less than budgeted by $2,912,118 for the Capital Projects fund, and more than budgeted by $74,717 for the Debt Service fund. Actual revenues for the year ended June 30, 2021, were less than the anticipated budget by $46,718 for the General Fund, less than the anticipated budget by $171,959 for the Special Revenue fund, and more than the anticipated budget by $246 for the Debt Service fund. For the year ended June 30, 2021, the final amended budget was reduced by $2,924,951 from $21,172,032 to $18,247,081. (See Budgetary Comparison Schedule for the General Fund, Special Revenue Fund, Capital Projects Fund, and Debt Service Fund under the Required Supplementary Information section on pages 42 through 46).

Capital Asset Administration

The change in capital asset amounts for the year was as follows:

		Balance 2020	Additions	Deletions	Balance 2021
Non-depreciable assets	$	14,855,248	4,459,714	(7,684,019)	11,630,943
Depreciable assets		98,464,488	7,719,575	-	106,184,063
Accumulated depreciation		(32,949,270)	(2,977,848)	-	(35,927,118)
Total capital assets, net	$	80,370,466	9,201,441	(7,684,019)	81,887,888

At the end of fiscal year 2021, the Agency's investment in capital assets (net of accumulated depreciation) amounted to $81,887,888. The investment in capital assets includes Harkins Slough project, accelerated pipeline project, coastal distribution system, buildings and improvements, vehicle, office and field equipment, furniture and fixtures, capacity rights – water recycle plant, etc. See note 4 to the financial statements for further information.

Debt Administration

		Balance 2020	Additions	Principal Payment	Balance 2021
Note payable	$	2,119,555	1,544,031	(279,815)	3,383,771
Bond payable		23,857,525	-	(2,418,948)	21,438,577
Total long-term debt	$	25,977,080	1,544,031	(2,698,763)	24,822,348

In 2021, long-term debt decreased by $1,154,732, due to note additions of $1,544,031 and principal payments on outstanding debt of $2,698,763. See note 7 to the financial statements for further information.

Conditions Affecting Current Financial Position

On March 15, 2020, the COVID-19 national health emergency resulted in a shelter-in-place order by state and county health departments. The Agency's operations were not impacted or halted because the Agency's operations are considered essential. The Agency implemented customer and staff safety procedures based on recommendations from various health departments and industry specialist. The Agency's operating revenues consist of augmentation charges and water sales totaling $12,102,376 and $2,109,806, respectively. In addition, receivables from customers have not faced significant delinquencies. The Agency continues to evaluate the impact of this health emergency on the Agency's operations.

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

Requests for Information

This financial report is designed to provide the Agency's funding sources, customers, stakeholders, and other interested parties with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Agency's Finance & Administrative Services Manager, Helen Rodriguez, at Pajaro Valley Water Management Agency, 36 Brennan Street, Watsonville California 95076 or (831) 722-9292.

Basic Financial Statements

Pajaro Valley Water Management Agency
Statement of Net Position
June 30, 2021

		2021
Current assets:		
Cash and cash equivalents (note 2)	$	17,575,026
Cash and cash equivalents – restricted (note 2)		254,139
Accounts receivable, net		4,177,072
Grant receivable (note 3)		67,604
Interest receivable		8,356
Prepaid expenses and other assets		81,997
Total current assets		22,197,975
Non-current assets:		
Capital assets – not being depreciated (note 4)		11,630,943
Depreciable capital assets, net (note 4)		70,256,945
Total non-current assets		81,887,888
Total assets		104,085,863
Deferred outflows of resources:		
Deferred pension outflows (note 9)		353,818
Total deferred outflows of resources	$	353,818

Continued on next page

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Net Position, continued
June 30, 2021

		2021
Current liabilities:		
Accounts payable	$	1,900,290
Accrued wages payable		75,335
Accrued interest		275,879
Unearned revenue		4,285
Long-term liabilities – due within one year:		
Compensated absences (note 6)		79,023
Note payable (note 7)		216,589
Bonds payable (note 7)		2,310,000
Total current liabilities		4,861,401
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)		237,068
Net pension liability (note 9)		1,414,845
Note payable (note 7)		3,167,182
Bonds payable (note 7)		19,128,577
Total non-current liabilities		23,947,672
Total liabilities		28,809,073
Deferred inflows of resources:		
Deferred pension inflows (note 9)		10,091
Total deferred inflows of resources		10,091
Net position: (note 10)		
Net investment in capital assets		57,065,540
Restricted		254,139
Unrestricted		18,300,838
Total net position	$	75,620,517

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Activities
For the Fiscal Year Ended June 30, 2021

	Expenses	Charge for Services	Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position
Functions/Programs				
Governmental activities:				
Water basin management	$ 9,738,959	14,212,182	4,551,434	9,024,657
Interest on long-term debt	708,325	-	-	(708,325)
Total governmental activities	$ 10,447,284	14,212,182	4,551,434	8,316,332

General revenues:	
Management fees	$ 387,333
Investment earnings	7,750
Other revenue	19,870
Total general revenues	414,953
Changes in net position	8,731,285
Net position, beginning of year	66,889,232
Net position, end of year	$ 75,620,517

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Balance Sheet
June 30, 2021

		General	Special Revenue	Capital Projects	Debt Service	Total Governmental Fund
Assets:						
Cash and cash equivalents	$	3,429,074	14,145,917	-	35	17,575,026
Restricted cash		-	-	-	254,139	254,139
Accounts receivable		22,406	4,154,666	-	-	4,177,072
Grants receivable		-	67,604	-	-	67,604
Interest receivable		1,784	6,551	-	21	8,356
Other receivable		-	33,781	-	-	33,781
Prepaid expenses		45,490	36,507	-	-	81,997
Interfund receivable (note 5)		94,959	-	-	-	94,959
Total assets	$	3,593,713	18,445,026	-	254,195	22,292,934
Liabilities:						
Accounts payable	$	8,257	1,203,606	688,427	-	1,900,290
Accrued wages payable		55,980	12,746	6,609	-	75,335
Unearned revenues		-	4,285	-	-	4,285
Interfund payable (note 5)		-	94,959	-	-	94,959
Total liabilities		64,237	1,315,596	695,036	-	2,074,869
Fund balance: (note 11)						
Non-spendable		45,490	36,507	-	-	81,997
Restricted		-	-	-	254,195	254,195
Committed		1,367,456	4,653,998	-	-	6,021,454
Assigned		316,091	-	-	-	316,091
Unassigned		1,800,439	12,438,925	(695,036)	-	13,544,328
Total fund balance		3,529,476	17,129,430	(695,036)	254,195	20,218,065
Total liabilities and fund balance	$	3,593,713	18,445,026	-	254,195	22,292,934

Continued on next page

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Position
June 30, 2021

Reconciliation:

Fund balance of governmental fund	$	20,218,065
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not in the governmental fund balance sheet. However, the Statement of Net Position includes those capital position among the assets of the Agency as a whole.		81,887,888
Deferred outflow of resources applicable to the consumption of resources to be used in future periods.		353,818
Long-term liabilities applicable to the Agency are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position.		
Accrued interest		(275,879)
Compensated absences		(316,091)
Note payable		(3,383,771)
Bonds payable		(21,438,577)
Net pension liability		(1,414,845)
Deferred inflow of resources applicable to the acquisition of resources to be used in future periods.		(10,091)
Net position of governmental activities	$	75,620,517

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Statement of Revenues, Expenditures, and Changes in Fund Balance
June 30, 2021

	General	Special Revenue	Capital Projects	Debt Service	Total Governmental Fund
Revenues:					
Charge for services:					
Augmentation charges	$ -	12,102,376	-	-	12,102,376
Water sales	-	2,109,806	-	-	2,109,806
Capital grants and contributions	-	4,551,434	-	-	4,551,434
Management fees	387,333	-	-	-	387,333
Interest income	2,949	4,555	-	246	7,750
Other income	-	19,870	-	-	19,870
Total revenues	390,282	18,788,041	-	246	19,178,569
Expenditures:					
Office administration	93,191	974,800	-	-	1,067,991
Board support	27,261	-	-	-	27,261
Education and outreach	4,089	131,205	-	-	135,294
Grant administration	-	127,903	-	-	127,903
Conservation	-	312,886	-	-	312,886
Harkins Slough facility	-	209,867	-	-	209,867
Coastal distribution system	-	1,006,296	-	-	1,006,296
Supplemental water (In-Basin)	-	392,480	-	-	392,480
Recycled water facility	-	2,071,730	-	-	2,071,730
Metering program	-	355,203	-	-	355,203
Basin modeling	-	147,637	-	-	147,637
Basin monitoring	-	186,554	-	-	186,554
In-Basin management plan	-	434,144	-	-	434,144
Regional water management plan	-	6,817	-	-	6,817
Out-of-Basin funding	-	17,489	-	-	17,489
In-Basin funding	-	104,995	-	-	104,995
Harkins Slough recharge facilities	-	-	170,610	-	170,610
College Lake project	-	-	2,712,835	-	2,712,835
Watsonville Slough & North Dunes	-	-	300,264	-	300,264
Recycled water disk filter upgrade	-	-	103,090	-	103,090
Recycled water storage phase III	-	-	31,210	-	31,210
F-line expansion	-	-	1,141,705	-	1,141,705
Capital outlay	-	34,056	-	-	34,056
Debt service:					
Principal	-	-	-	2,489,816	2,489,816
Interest	-	-	-	946,626	946,626
Total expenditures	124,541	6,514,062	4,459,714	3,436,442	14,534,759
Excess(deficiency) of revenues over expenditures	265,741	12,273,979	(4,459,714)	(3,436,196)	4,643,810
Other financing sources(uses):					
Proceeds from note	-	1,544,031	-	-	1,544,031
Operating transfers in (note 5)	-	-	5,915,182	3,435,554	9,350,736
Operating transfers out (note 5)	-	(9,350,736)	-	-	(9,350,736)
Total other financing sources(uses)	-	(7,806,705)	5,915,182	3,435,554	1,544,031
Changes in fund balance	265,741	4,467,274	1,455,468	(642)	6,187,841
Fund balance, beginning of year	3,263,735	12,662,156	(2,150,504)	254,837	14,030,224
Fund balance, end of year	$ 3,529,476	17,129,430	(695,036)	254,195	20,218,065

See accompanying notes to the basic financial statements

Pajaro Valley Water Management Agency
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities
For the Fiscal Year Ended June 30, 2021

Reconciliation:

Net change in fund balance of governmental fund	$ 6,187,841
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures; however, in the Statement of Net Position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, the amounts are as follows:	
Capital outlay	4,495,270
Current year depreciation	(2,977,848)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes current financial resources of governmental funds. However, neither transaction has any effect on the Statement of Activities. In the current period, the amounts are as follows:	
Changes in accrued interest	29,353
Proceeds from debt financing	(1,544,031)
Principal payments on note payable	279,815
Principal payments on bond payable	2,210,000
Amortization of bond premium	208,948
Net pension liability and deferred pension outflows (inflows) reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds as follows:	
Deferred pension outflows	(16,971)
Deferred pension inflows	12,505
Net pension liabilities	(122,414)
Compensated absences reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(31,183)
Changes in net position of governmental activities	$ 8,731,285

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Pajaro Valley Water Management Agency (Agency) was formed in 1984 to provide integrated management of the ground and surface water resources within the Pajaro Basin. The Agency is responsible for the management and augmentation of the water supplies for domestic, agricultural, municipal, and industrial purposes. In 1980, the State Department of Water Resources issued Bulletin 118-80, which identified 447 separate groundwater basins, sub-basins, and areas of potential groundwater storage throughout the State. The Agency's boundaries include the communities of Division A (Corralitos and La Selva Beach), Division B (Freedom), Division C (Watsonville and Pajaro), and Division D (Las Lomas, Moss Landing, and Aromas) and encompasses the Pajaro Watershed. The Agency is governed by a Board of Directors made up of seven members elected or appointed by qualified voters.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the Agency are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Agency are to be reported in three categories, if applicable: 1) charge for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charge for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements. The Agency has presented its General Fund as its major fund in these statements to meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period.

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

B. Basis of Accounting and Measurement Focus, continued

Governmental Fund Financial Statements, continued

Accordingly, revenues are recorded when received in cash, except revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Agency are property taxes and assessments, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

a) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined; or

c) The entity has determined that a fund is important to financial statement users.

The Agency reports the following major governmental fund:

- **General Fund** – a government's primary operating fund. It accounts for all financial resources of the Agency, except those required to be accounted for in another fund when necessary.
- **Special Revenue Fund** – accounts for revenues derived from specific sources, which are usually required by law or regulation, to be accounted for in separate funds.
- **Debt Service Fund** – accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- **Capital Projects Fund** – accounts for the financial resources to be used for the acquisition or construction of major capital facilities and infrastructure improvements.

C. Financial Reporting

The Agency's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles applicable to governmental entities.

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

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

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

C. Financial Reporting, continued

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

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

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

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

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

D. Financial Elements

1. Use of Estimates

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

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

D. Financial Elements, continued

2. Risk and Uncertainty

On March 15, 2020, the COVID-19 national health emergency resulted in a shelter-in-place order by state and county health departments. The Agency's operations were not impacted or halted because the Agency's operations are considered essential. The Agency implemented customer and staff safety procedures based on recommendations from various health departments and industry specialist. The Agency's operating revenues consist of augmentation charges and water sales totaling $12,102,376 and $2,109,806, respectively. In addition, receivables from customers have not faced significant delinquencies. The Agency continues to evaluate the impact of this health emergency on the Agency's operations.

3. Cash and Cash Equivalents

The Agency considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

4. Investments and Investment Policy

The Agency has adopted an investment policy to deposit and invest funds in financial institutions in accordance with California Government Code section 53600. The investment policy applies to all financial assets and investment activities of the Agency.

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

5. Accounts Receivable and Allowance for Uncollectible Accounts

The Agency periodically evaluates receivables for collectability on an individual account basis and records an allowance for any amounts determined to be uncollectible.

6. Prepaid Expenses

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

7. Capital Assets

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

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

- Buildings and improvements – 15 to 30 years
- Infrastructure – 80 years
- Equipment – 5 to 25 years
- Vehicles – 7 to 10 years
- Furniture and fixtures – 5 years
- Water rights – Recycle Water Facility – 25 years

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

D. Financial Elements, continued

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

9. Compensated Absences

The Agency allows employees to accrue vacation, sick, and compensation time based on an employee's hourly rate at year end. Upon termination of an employee, the Agency is required to pay accrued vacation, sick, and compensation time to a maximum of 360 hours, 720 hours, and 80 hours, respectively.

Accumulated vacation, sick, and compensation time are recorded as an expense and a liability in the government-wide financial statements at the time the liability is incurred.

10. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

11. Pensions

For purposes of measuring net pension liability and deferred outflows/inflows of resources related to pension and pension expense, information about the fiduciary net position of the Agency'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:

- Valuation Date: June 30, 2019
- Measurement Date: June 30, 2020
- Measurement Period: July 1, 2019 to June 30, 2020

12. Net Position

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

- **Net investment in capital assets** – consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.
- **Restricted** – consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – consists of net position that does not meet the definition of *restricted* or *net investment in capital assets* components of net position.

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

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

D. Financial Elements, continued

13. Fund Balance

The governmental fund financial statements report fund balance as non-spendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- **Non-spendable** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – amounts that can only be used for specific purposes determined by formal action of the Agency's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** – amounts that are constrained by the Agency's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the Agency's special revenue funds.
- **Unassigned** – the residual classification for the Agency's General Fund that includes amounts not contained in other classifications. In other funds, the unassigned classification is used only if expenditure incurred for specific purposes exceeds the amounts restricted, committed, or assigned for those purposes.

The Board of Directors establishes, modifies, or rescinds fund balance commitments and assignments by approving contractual commitments, an ordinance, or a resolution. This is done through adoption of a budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

The Agency believes that sound financial management principles require that sufficient funds be retained by the Agency to provide a stable financial base at all times. To retain this stable financial base, the Agency needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the Agency and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balance classifications are considered unrestricted.

The purpose of the Agency's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

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

D. Financial Elements, continued

14. Management Fees

Management fees are billed by Santa Cruz, San Benito, and Monterey counties. Management fees are due November 1 and February 1 and are delinquent if not paid by December 10 and April 10, respectively. The counties bill and collect management fees and remit them to the Agency.

15. Augmentation Charges

Augmentation charges, based on quantity of water usage, are billed and collected in two ways. Unmetered or rural residential accounts are billed annually by the Agency on June 30. Delinquent accounts are turned over to a collection agency after other recovery efforts have been exhausted. Metered accounts are billed quarterly by the Agency. Large delinquent accounts are collected through litigation after other recovery efforts have been exhausted.

All collected augmentation charge revenues are recorded in the Special Revenue fund accounts. All capital construction costs are paid with augmentation charges, grants, loans, and debt issuances.

16. Water Sales

Delivered water charge is collected for water delivered through the constructed project. This revenue is recorded in the Special Revenue fund accounts and spent in accordance with the Agency's Fund Accounting Policy.

17. Capital Contributions

Capital contributions represent cash and capital asset contributed to the Agency by property owners, granting agencies, or real estate developers desiring services that require capital expenditures or capacity commitment.

18. Budgetary Policies

The Agency's Board of Directors annually adopts a non-appropriated budget for the Agency. The Board of Directors' action is required for the approval of budget revisions.

(2) Cash and Investments

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

		2021
Cash and cash equivalents	$	17,575,026
Cash and cash equivalents - restricted		254,139
Total cash and investments	$	17,829,165

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

		2021
Cash on hand	$	225
Deposits with financial institutions		7,618,762
Local Agency Investment Fund (LAIF)		10,210,178
Total	$	17,829,165

(2) Cash and Investments, continued

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

	2021
Deposits held with the California Local Agency Investment Fund (LAIF)	291 days

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

The table below identifies the investment types that are authorized for the Agency by the California Government Code as follows:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
Federal Agency and Bank Obligations	None	50%	None
Local Agency Bonds	5 years	None	None
Certificates of Deposits	5 years	None	None
Negotiable Certificates of Deposits	5 years	30%	25%
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	20%	10%
Money market mutual funds	N/A	20%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Investment in State Investment Pool

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

The Agency's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of $1,000.
- Withdrawals of $10 million or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

(2) Cash and Investments, continued

Custodial Credit Risk

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

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

The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. Of the bank balance, up to $250,000 held at each institution are federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Agency's name.

Interest Rate Risk

Interest rate risk is the risk that the change in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the change in market interest rates. It is the Agency's policy to structure its investment portfolio with securities whose maturity date is compatible with cash flow requirements, which will permit easy and rapid conversion into cash without substantial loss of value, and will enable the Agency to meet all operating requirements which can be reasonably anticipated. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The policy is designed to minimize the interest rate risk. The Agency had no investments in debt instruments that would be subject to interest rate risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Agency's investment in LAIF is not rated.

Concentration of Credit Risk

The Agency's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of the Agency's total investments at June 30, 2021.

(3) Grant Receivable

Grants receivable at June 30 consists of the following:

Grant		2021
Clean Water State Revolving Fund	$	67,604
Total	$	67,604

Clean Water State Revolving Fund

On February 2016, the Agency was awarded grant and loan funding from the California State Water Resources Control Board (State Water Board) through a cooperative agreement (Agreement). The projects, under the grant and loan funding agreement, consist of increasing the recycled water storage and the addition of filtration and disinfection units at the recycled water treatment plant.

(4) Capital Assets

The change in capital assets for fiscal year 2021 was as follows:

	Balance 2020	Additions	Deletions	Balance 2021
Non-depreciable assets:				
Land	$ 1,401,689	-	-	1,401,689
Construction in progress	13,453,559	4,459,714	(7,684,019)	10,229,254
Total non-depreciable assets	14,855,248	4,459,714	(7,684,019)	11,630,943
Depreciable assets:				
Harkins Slough project	19,840,772	-	-	19,840,772
Accelerated pipeline project	8,207,481	-	-	8,207,481
Coastal distribution system	36,905,383	4,037,719	-	40,943,102
Buildings and improvements	456,958	-	-	456,958
Vehicle	234,188	35,556	-	269,744
Office and field equipment	118,009	-	-	118,009
Furniture and fixtures	454	-	-	454
Capacity rights - water recycle plant	32,664,043	3,646,300	-	36,310,343
Other assets	37,200	-	-	37,200
Total depreciable assets	98,464,488	7,719,575	-	106,184,063
Accumulated depreciation	(32,949,270)	(2,977,848)	-	(35,927,118)
Total depreciable assets, net	65,515,218	4,741,727	-	70,256,945
Total capital assets, net	$ 80,370,466			81,887,888

Major depreciable capital asset additions during fiscal year 2021 include the purchase of a vehicle.

(4) Capital Assets, continued

Construction-in-Process

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

		2021
College Lake integrated resource management	$	6,624,616
Watsonville Slough project with recharge basin		1,732,880
Harkins Slough facility upgrade		1,638,513
Other construction-in-process		233,245
Total construction-in-process	$	10,229,254

(5) Interfund Transactions

At June 30, 2021, interfund receivables and payables consist of the following:

		Interfund Receivable	Interfund Payable
Special revenue	$	-	94,959
General fund		94,959	-
Total	$	94,959	94,959

The interfund receivables and payables represent cash deposited to one fund belonging to another fund. These amounts will be reimbursed subsequent to June 30, 2021.

Interfund transfers generally are made for the purpose of capital project and debt service payments; these payments are made from the capital project and debt service funds and funded through the special revenue fund.

Transfers between funds during the year were as follows:

		Transfer In	Transfer Out
Special revenue	$	-	9,350,736
Debt service		3,435,554	-
Capital projects		5,915,182	-
Total	$	9,350,736	9,350,736

(6) Compensated Absences

The change to compensated absences at June 30 was as follows:

	Balance 2020	Earned	Taken	Balance 2021	Current Portion	Long-term Portion
$	284,908	161,712	(130,529)	316,091	79,023	237,068

(7) Long-Term Debt

Changes in long-term debt at June 30 were as follows:

	Balance 2020	Additions	Payments	Balance 2021	Current Portion	Non-Current Portion
Notes payable:						
Department of Water Resources	$ 1,716,316	-	(211,564)	1,504,752	216,589	1,288,163
Clean Water State Revolving Fund	403,239	1,544,031	(68,251)	1,879,019	-	1,879,019
Total notes payable	2,119,555	1,544,031	(279,815)	3,383,771	216,589	3,167,182
Bonds payable:						
2015 Water Revenue Bonds	12,005,000	-	(1,770,000)	10,235,000	1,850,000	8,385,000
Premium on bonds	1,379,259	-	(157,629)	1,221,630	-	1,221,630
Total 2015 Water Revenue Bonds	13,384,259	-	(1,927,629)	11,456,630	1,850,000	9,606,630
2016 Water Revenue Bonds	9,665,000	-	(440,000)	9,225,000	460,000	8,765,000
Premium on bonds	808,266	-	(51,319)	756,947	-	756,947
Total 2016 Water Revenue Bonds	10,473,266	-	(491,319)	9,981,947	460,000	9,521,947
Total bonds payable	23,857,525	-	(2,418,948)	21,438,577	2,310,000	19,128,577
Total long-term debt	25,977,080	1,544,031	(2,698,763)	24,822,348	2,526,589	22,295,759
Less: current portion	(2,421,565)			(2,526,589)		
Non-current portion	$ 23,555,515			22,295,759		

Department of Water Resources

On June 15, 2005, the Agency entered into a promissory note with the Department of Water Resources (DWR) in the amount of $3,511,446. The loan proceeds were used for the construction of components of the Revised Basin Management Plan. Commencing on April 1, 2008, the note was payable in semi-annual installments of principal and interest of $111,049, with interest at 2.4%, maturing on September 30, 2027.

On February 24, 2012, the Agency received $390,164 from the DWR related to unpaid retention and the repayment agreement was revised. Commencing on April 1, 2012, the note is payable in semi-annual installments of principal and interest of $125,708. There were no changes to the interest rate or maturity date.

Future debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2022	$ 216,589	34,826	251,415
2023	221,819	29,597	251,416
2024	227,127	24,289	251,416
2025	232,698	18,718	251,416
2026	238,276	13,139	251,415
2027-2028	368,243	8,881	377,124
Total	1,504,752	129,450	1,634,202
Current	(216,589)		
Non-current	$ 1,288,163		

(7) Long-Term Debt, continued

Clean Water State Revolving Fund

In February 2016, the Agency was awarded grant and loan funding from the California State Water Resources Control Board (State Water Board) through a cooperative agreement (Agreement) with the loan amount totaling $1,947,270. The projects, under the grant and loan funding agreement, consist of increasing the recycled water storage and the addition of filtration and disinfection units at the recycled water treatment plant. Commencing on July 1, 2021, the note is payable in annual installments of principal and interest of $74,964, with interest at 1.0%, maturing on July 1, 2051.

Future debt service payments are as follows:

Fiscal Year		Principal	Interest	Total
2023	$	56,173	18,790	74,963
2024		56,735	18,228	74,963
2025		57,302	17,661	74,963
2026		57,875	17,088	74,963
2027-2031		298,175	76,642	374,817
2032-2036		313,385	61,433	374,818
2037-2041		329,371	45,447	374,818
2042-2046		346,172	28,646	374,818
2047-2051		363,831	10,987	374,818
Total		1,879,019	294,922	2,173,941
Current		(57,875)		
Non-current	$	1,821,144		

2015 Water Revenue Refunding

On April 30, 2015, the Agency issued the 2015 Revenue Refunding Bond in the amount of $19,970,000. The bonds were issued to refund the 1999 Certificates of Participation and the State Water Resources Control Board Note Payables No. 1 and 2. The term of the bond calls for annual payments of principal and interest on March 1 of each year. The bond's interest rate ranges from 3.0% to 5.0% and matures on March 1, 2029.

Future debt service payments are as follows:

Fiscal Year		Principal	Interest	Total
2022	$	1,850,000	447,350	2,297,350
2023		1,940,000	354,850	2,294,850
2024		1,290,000	351,200	1,641,200
2025		945,000	93,350	1,038,350
2026		2,035,000	242,700	2,277,700
2027-2029		2,175,000	98,400	2,273,400
Total		10,235,000	1,587,850	11,822,850
Current		(1,850,000)		
Premium		1,221,630		
Non-current	$	9,606,630		

(7) Long-Term Debt, continued

2016 Water Revenue Refunding

On June 29, 2016, the Agency issued the 2016 Revenue Refunding Bond in the amount of $11,435,000. The terms of the bond call for semi-annual payments of interest on September 1 and March 1 of each year, and annual payments of principal on March 1 of each year. The bond's interest rate ranges from 2.0% to 5.0% and matures on March 1, 2036.

Future debt service payments are as follows:

Fiscal Year		Principal	Interest	Total
2022	$	460,000	346,613	806,613
2023		475,000	328,213	803,213
2024		500,000	304,463	804,463
2025		515,000	290,713	805,713
2026		530,000	276,550	806,550
2027-2031		3,755,000	1,069,800	4,824,800
2032-2036		2,990,000	227,550	3,217,550
Total		9,225,000	2,843,902	12,068,902
Current		(460,000)		
Premium		756,947		
Non-current	$	9,521,947		

(8) Deferred Compensation Savings Plan

For the benefit of its employees, the Agency 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. Generally, eligible employees may defer 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 Agency is in compliance with this legislation. Therefore, these assets are not the legal property of the Agency and are not subject to claims by the Agency's general creditors. Market value of all plan assets held in trust at June 30, 2021, was $1,775,742.

The Agency has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* Since the Agency 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.

(9) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the Agency's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

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 equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. Cost of living adjustments for each plan 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 Agency's CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the Agency's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The Agency participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect at June 30, 2021, are summarized as follows:

	Miscellaneous Plan	
	Classic	**PEPRA**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 service years	
Benefit payments	monthly for life	
Retirement age	50 - Minimum	52 - Minimum
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.750%
Required employer contribution rates	11.031%	7.732%

(9) Defined Benefit Pension Plan, continued

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that employer contribution rates for all public employers be determined on an annual basis by an actuary and shall be effective on July 1, following notice of the change in rates. 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 Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2021, contributions recognized as part of pension expense for the Plan were as follows:

		2021
Contributions – employer	$	211,886

Net Pension Liability

As of June 30, 2021, the Agency reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

		2021
Proportionate share of net pension liability	$	1,414,845

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

The Agency's proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement date June 30, 2020, was as follows:

	Miscellaneous	
Proportion – June 30, 2019	0.01261	%
Change in proportion	0.00039	
Proportion – June 30, 2020	0.01300	%

(9) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the year ended June 30, 2021, the Agency recognized pension expense of $345,259. As of June 30, 2021, the Agency reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	218,379	-
Differences between actual and expected experience		72,911	-
Change in assumptions		-	(10,091)
Net difference between projected and actual earnings on plan investments		42,030	-
Adjustment due to the change in proportions and difference between actual and proportionate share of contributions		20,498	-
Total deferred outfow(inflow)	$	353,818	(10,091)

As of June 30, 2021, the Agency reported $218,379 as deferred outflows of resources related to contributions subsequent to the measurement date. Pension contributions subsequent to the measurement date for the year ended June 30, 2021, will be recognized as a reduction of the net pension liability for the year ended June 30, 2022.

At June 30, 2021, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Fiscal Year Ending June 30,		Deferred Net Outflows/ (Inflows) of Resources
2022	$	27,919
2023		44,194
2024		33,075
2025		20,160

(9) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation dates	June 30, 2019 and 2018
Measurement dates	June 30, 2020 and 2019
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
Mortality Table*	Derived using CalPERS membership data
Period upon which actuarial Experience survey assumptions were based	1997 – 2015
Post-retirement benefit increase	Contract COLA up to 2.50% until PPPA floor on purchasing power applies; 2.50% thereafter

* The mortality table was developed based on CalPERS specific data. The table includes 15 years of mortality improvement using the Society of Actuaries 90 percent of scale MP 2016. For more details on this table, please refer to the December 2017, experience study report (based on CalPERS demographic data from 1997 to 2015) available online on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2020 and 2019, for the PERF C was 7.15%. This discount rate is not adjusted for administrative expenses.

The PERF C fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return for those pension plans' investments were applied to all periods of projected benefit payments to determine the total pension liability.

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

(9) Defined Benefit Pension Plan, continued

Discount Rate, continued

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

The table below reflects long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	50.00 %	4.80 %	5.98 %
Fixed income	28.00	1.00	2.62
Inflation assets	0.00	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	0.00	(0.92)
	100.00 %		

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

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

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
Agency's net pension liability	$ 2,356,520	1,414,845	636,768

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 47 through 49 for the Required Supplementary Information.

(10) Net Position

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

		2021
Net investment in capital assets:		
Capital assets, net	$	81,887,888
Loan payable, current		(216,589)
Loan payable, non-current		(3,167,182)
Bonds payable, current		(2,310,000)
Bonds payable, non-current		(19,128,577)
Total net investment in capital assets		57,065,540
Restricted for debt service:		
Restricted - cash and cash equivalents		254,139
Total restricted for debt service		254,139
Unrestricted net position:		
Non-spendable net position:		
Prepaid expenses and other assets		81,996
Total non-spendable net position		81,996
Spendable net position:		
Unrestricted		18,218,842
Total spendable net position		18,218,842
Total unrestricted net position		18,300,838
Total net position	$	75,620,517

(11) Fund Balance

Calculation of fund balance as of June 30, is as follows:

		2021
Non-spendable:		
Prepaid expenses	$	81,997
Total non-spendable		81,997
Restricted		
Restricted for debt service		254,195
Total restricted		254,195
Committed:		
Contracted captial projects		4,653,998
Contracted services		1,367,456
Total committed		6,021,454
Assigned:		
Compensated absences		316,091
Total assigned		316,091
Unassigned:		
Operations		13,544,328
Total unassigned		13,544,328
Total fund balance	$	20,218,065

(12) Risk Management

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2021, the Agency participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2 million, combined single limit at $9 million per occurrence. The JPIA purchases additional excess coverage layers: $30 million per occurrence for general, auto, and public official liability, which increases the limits on the insurance coverage noted above.
- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration, and theft and computer fraud.

(12) Risk Management, continued

- Property loss is paid at the replacement cost for property on file if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $150 million per occurrence, subject to a $1,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to $2 million and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Agency's insurance coverage during the year ended June 30, 2021. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2021, 2020, and 2019.

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

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

Governmental Accounting Standards Board Statement No. 87

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

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

Governmental Accounting Standards Board Statement No. 89

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

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

Governmental Accounting Standards Board Statement No. 89, continued

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

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

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

Governmental Accounting Standards Board Statement No. 91

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

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

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

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

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

Governmental Accounting Standards Board Statement No. 92

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

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

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

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

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

Governmental Accounting Standards Board Statement No. 94

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

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

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

Governmental Accounting Standards Board Statement No. 96

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

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

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

Governmental Accounting Standards Board Statement No. 97

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

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

(14) Commitments and Contingencies

Construction Contracts

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

(14) Commitments and Contingencies, continued

City of Watsonville

In April 2006, the Agency entered into an agreement with the City of Watsonville (City) for costs associated with the operation and maintenance of the Watsonville recycle plant which provides recycled water to the Agency. The City owns, operates, and maintains the distribution infrastructure and blending facilities. The Agency is entitled to water from the treatment plant. As part of the agreement, the Agency agreed to pay the City quarterly operation and maintenance costs of the treatment plant. In fiscal year 2021, the Agency paid the City $2,054,968 for the cost associated with the Watsonville recycle plant.

Litigation

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

(15) Subsequent Events

Events occurring after June 30, 2021, have been evaluated for possible adjustment to the financial statements or disclosure as of December 22, 2021, which is the date the financial statements were available to be issued.

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Required Supplementary Information

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – General Fund
For the Year Ended June 30, 2021

		Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Management fees	$	387,000	387,000	387,333	333
Interest income		50,000	50,000	2,949	(47,051)
Total revenues		437,000	437,000	390,282	(46,718)
Expenditures:					
Office administration		229,286	179,970	93,191	86,779
Board support		105,826	35,500	27,261	8,239
Special projects outreach		33,854	32,800	4,089	28,711
Total expenditures		368,966	248,270	124,541	123,729
Excess of revenues over expenditures		68,034	188,730	265,741	77,011
Fund balance - beginning of year		3,263,735	3,263,735	3,263,735	
Fund balance - end of year	$	3,331,769	3,452,465	3,529,476	

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – Special Revenue Fund
For the Year Ended June 30, 2021

	Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:				
Augmentation charges	$ 12,000,000	11,500,000	12,102,376	602,376
Water sales	1,900,000	2,100,000	2,109,806	9,806
Interest income	200,000	200,000	4,555	(195,445)
Grant income	6,600,000	5,125,000	4,551,434	(573,566)
Other income	35,000	35,000	19,870	(15,130)
Total revenues	20,735,000	18,960,000	18,788,041	(171,959)
Expenditures:				
Office administration	1,072,532	974,050	974,800	(750)
Education and outreach	183,903	130,850	131,205	(355)
Grant administration	137,823	116,500	127,903	(11,403)
Conservation	384,357	445,500	312,886	132,614
Harkins Slough facility	248,617	244,500	209,867	34,633
Coastal distribution system	992,068	1,074,600	1,006,296	68,304
Supplemental water (In-Basin)	431,469	427,500	392,480	35,020
Recycled water facility	2,141,028	2,137,000	2,071,730	65,270
Metering program	452,074	466,000	355,203	110,797
Basin modeling	282,835	273,500	147,637	125,863
Basin monitoring	256,180	245,500	186,554	58,946
In-Basin management plan	561,729	503,000	434,144	68,856
Regional water management plan	34,468	33,500	6,817	26,683
Out-of-Basin funding	48,143	44,000	17,489	26,511
In-Basin funding	150,643	149,500	104,995	44,505
Capital outlay	-	-	34,056	(34,056)
Total expenditures	7,377,869	7,265,500	6,514,062	751,438
Excess of revenues over expenditures	13,357,131	11,694,500	12,273,979	579,479
Other financing sources:				
Proceeds from note	-	-	1,544,031	1,544,031
Transfers out	-	-	(9,350,736)	(9,350,736)
Total other financing sources	-	-	(7,806,705)	(7,806,705)
Net change in fund balance	13,357,131	11,694,500	4,467,274	(7,227,226)
Fund balance - beginning of year	12,662,156	12,662,156	12,662,156	
Fund balance - end of year	$ 26,019,287	24,356,656	17,129,430	

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – Capital Projects Fund
For the Year Ended June 30, 2021

	Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Expenditures:				
Harkins Slough recharge facilities	$ 1,093,886	255,000	170,610	84,390
College Lake project	5,674,406	5,189,406	2,712,835	2,476,571
Watsonville Slough & North Dunes	721,886	462,886	300,264	162,622
Recycled water disk filter upgrade	100,000	110,000	103,090	6,910
Recycled water storage phase III	226,573	126,573	31,210	95,363
F-line expansion	2,246,967	1,227,967	1,141,705	86,262
Total expenditures	10,063,718	7,371,832	4,459,714	2,912,118
Deficiency of revenues over expenditures	(10,063,718)	(7,371,832)	(4,459,714)	2,912,118
Other financing sources:				
Transfers in	-	-	5,915,182	(5,915,182)
Total other financing sources	-	-	5,915,182	(5,915,182)
Net change in fund balance	(10,063,718)	(7,371,832)	1,455,468	(3,003,064)
Fund balance - beginning of year	(2,150,504)	(2,150,504)	(2,150,504)	
Fund balance - end of year	$ (12,214,222)	(9,522,336)	(695,036)	

Pajaro Valley Water Management Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual – Debt Service Fund
For the Year Ended June 30, 2021

		Original Adopted Budget	Final Amended Budget	Actual Budgetary Basis	Variance Positive (Negative)
Revenues:					
Interest income	$	-	-	246	246
Total revenues		-	-	246	246
Expenditures:					
Debt service:					
Principal		2,461,416	2,421,565	2,489,816	(68,251)
Interest		900,063	939,914	946,626	(6,712)
Total expenditures		3,361,479	3,361,479	3,436,442	(74,963)
Deficiency of revenues over expenditures		(3,361,479)	(3,361,479)	(3,436,196)	(74,717)
Other financing sources:					
Transfers in		-	-	3,435,554	(3,435,554)
Total other financing sources		-	-	3,435,554	(3,435,554)
Net change in fund balance		(3,361,479)	(3,361,479)	(642)	3,360,837
Fund balance - beginning of year		254,837	254,837	254,837	
Fund balance - end of year	$	(3,106,642)	(3,106,642)	254,195	

Basis of Budgeting

The Agency follows specific procedures in establishing the budgetary data reflected in the financial statements. Each year, the Agency's management and staff prepare and submit a capital and operating budget to the Board of Directors and are adopted no later than June of each year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Annual budgets are adopted on the modified accrual basis of accounting for government fund types. The adopted budget becomes operative on July 1.

The Board of Directors must approve all supplemental appropriations to the budget and transfers between major funds. The legal level of budgetary control is at the fund level. Budget information is presented as required supplementary information for the General, Special Revenue, Capital Projects, and Debt Service funds.

Pajaro Valley Water Management Agency
Schedules of the Agency's Proportionate Share of the Net Pension Liability
As of June 30, 2021
Last Ten Years*

Description		Measurement Date June 30, 2020	2019	2018	2017	2016	2015	2014
Agency's proportion of the net pension liability		0.01300%	0.01261%	0.01218%	0.01238%	0.01207%	0.01173%	0.01278%
Agency's proportionate share of the net pension liability	$	1,414,845	1,292,431	1,173,363	1,227,637	1,044,568	805,081	795,051
Agency's covered-employee payroll	$	1,331,852	1,106,339	1,095,085	1,160,676	1,012,215	957,312	908,004
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll		106.23%	116.82%	107.15%	105.77%	103.20%	84.10%	87.56%
Plan's fiduciary net position as a percentage of the Plan's total pension liability		75.10%	75.26%	75.26%	73.31%	74.06%	78.40%	79.82%

Notes to the Schedules of the Agency's Proportionate Share of Net Pension Liability

Changes in Benefit Terms

Public agencies can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

Change of Assumptions and Methods

The CalPERS Board of Administration adopted a new amortization policy effective with the June 30, 2019, actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019. In fiscal year 2020, no changes have occurred to the actuarial assumptions in relation to financial reporting.

In fiscal year 2020, CalPERS implemented a new actuarial valuation software system for the June 30, 2018 valuation. This new system has refined and improved calculation methodology.

In December 2017, the CalPERS Board adopted new mortality assumptions for plans participating in the PERF. The new mortality table was developed from the December 2017 experience study and includes 15 years of projected ongoing mortality improvement using 90% of scale MP 2016 published by the Society of Actuaries. The inflation assumption is reduced from 2.75% to 2.50%.

The assumptions for individual salary increases and overall payroll growth are reduced from 3.00% to 2.75%. These changes will be implemented in two steps commencing in the June 30, 2017 funding valuation. However, for financial reporting purposes, these assumption changes are fully reflected in the results for fiscal year 2018.

Notes to the Schedules of the Agency's Proportionate Share of Net Pension Liability, continued

Change of Assumptions and Methods, continued

In fiscal year 2017, the financial reporting discount rate for the PERF C was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used in the PERF C from 7.50% to 7.00%, which is to be phased in over a three-year period (7.50% to7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In fiscal year 2015, the financial reporting discount rate was increased from 7.50% to 7.65% resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50% during this period, and remained adjusted for administrative expenses.

* The Agency has presented information for those years for which information is available until a full 10- year trend is compiled.

Pajaro Valley Water Management Agency
Schedules of Pension Plan Contributions
As of June 30, 2021
Last Ten Years*

Description		Fiscal Year Ending June 30, 2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	$	218,379	211,886	188,755	169,459	148,790	133,907	125,928
Contributions in relation to the actuarially determined contribution		(218,379)	(211,886)	(188,755)	(169,459)	(143,115)	(145,038)	(125,928)
Contribution deficiency(excess)	$	-	-	-	-	5,675	(11,131)	-
Covered payroll	$	1,331,852	1,106,339	1,095,085	1,160,676	1,012,215	957,312	908,004
Contribution's as a percentage of covered-employee payroll		16.40%	19.15%	17.24%	14.60%	14.14%	15.15%	13.87%

Notes to the Schedules of Pension Plan Contributions

* The Agency has presented information for those years for which information is available until a full 10-year trend is compiled.

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Report on Internal Controls and Compliance

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

Board of Directors
Pajaro Valley Water Management Agency
Watsonville, 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 Pajaro Valley Water Management Agency (Agency) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprises the Agency's basic financial statements, and have issued our report thereon dated December 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP
Cypress, California
December 22, 2021