

PROTECTING RESOURCES
PARTNERING IN SOLUTIONS



SPADRA BASIN
GROUNDWATER SUSTAINABILITY
— AGENCY —

Spadra Basin Groundwater Sustainability Agency
Walnut, California

Annual Financial Report

For the Fiscal Years Ended June 30, 2020 and 2019

Our Mission Statement

"To manage and protect groundwater resources in the Spadra Basin and promote its beneficial uses for the people, businesses and stakeholders it serves."

Spadra Basin Groundwater Sustainability Agency

Executive Committee Members as of June 30, 2020

<u>Name</u>	<u>Title</u>	<u>Stakeholder</u>
Rubio Gonzalez	Committee Member	City of Pomona
Jerry Tang	Committee Member	Walnut Valley Water District
Victor Preciado	Alternate	City of Pomona
Vacant	Alternate	Walnut Valley Water District

Spadra Basin Groundwater Sustainability Agency

Josh Byerrum, Treasurer

271 S Brea Canyon Rd.

Walnut, California 91789

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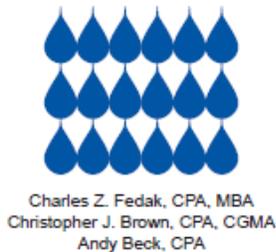
**Spadra Basin Groundwater Sustainability Agency
Annual Financial Report
For the Fiscal Years Ended June 30, 2020 and 2019**

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Financial Section



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Independent Auditor's Report

Executive Committee
Spadra Basin Groundwater Sustainability Agency
Walnut, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Spadra Basin Groundwater Sustainability Agency (Agency), which comprises the statements of net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Agency's. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency, as of June 30, 2020 and 2019, and the respective changes in net position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 January 4, 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 19 and 20.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

January 4, 2021

Spadra Basin Groundwater Sustainability Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Spadra Basin Groundwater Sustainability Agency (Agency) provides an introduction to the financial statements of the Agency for the fiscal year ended June 30, 2020 and 2019. We encourage readers to consider the information presented here with the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- Net position increased by \$19,741 to \$24,741, as a result of current year non-operating revenue. In 2019, the Agency's net position amounted to \$5,000.
- Revenues increased by \$200,995 to \$226,556, in 2020. In 2019, the Agency's revenues amounted to \$25,561.
- Expenses increased by \$205,995 to \$226,556, in 2020. In 2019, the Agency's expenses amounted to \$20,561.
- Non-operating revenue increased by \$19,741, in 2020. In 2019, there was no reported non-operating revenue.

Using This Financial Report

This annual report consists of a series of financial statements. The Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements of Cash Flows provide information about the activities and performance of the 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, 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 current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Agency's operations over the past year and can be used to determine if the Agency has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and creditworthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the Agency's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Agency

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 Revenues, Expenses and Changes in Net Position report information about the Agency in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Spadra Basin Groundwater Sustainability Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Financial Analysis of the Agency, continued

These two statements report the Agency's net position and changes in it. One can think of the Agency's net position – the difference between assets plus deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the 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 such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 10 through 18.

Statements of Net Position

Condensed Statements of Net Position

	2020	2019	Change
Assets:			
Current assets	\$ 46,632	11,765	34,867
Total assets	46,632	11,765	34,867
Liabilities:			
Current liabilities	21,891	6,765	15,126
Total liabilities	21,891	6,765	15,126
Net position:			
Unrestricted	24,741	5,000	19,741
Total net position	\$ 24,741	5,000	19,741

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 of the Agency exceeded liabilities by \$24,741 and \$5,000 as of June 30, 2020 and 2019, respectively.

Spadra Basin Groundwater Sustainability Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Revenues:			
Administrative assessments	\$ 10,725	15,259	(4,534)
Member assessments	<u>215,831</u>	<u>10,302</u>	<u>205,529</u>
Total Revenues	<u>226,556</u>	<u>25,561</u>	<u>200,995</u>
Expenses:			
Operating expenses	<u>226,556</u>	<u>20,561</u>	<u>205,995</u>
Total Expenses	<u>226,556</u>	<u>20,561</u>	<u>205,995</u>
Net income before non-operating revenue	-	5,000	(5,000)
Non-operating revenue:			
Grant revenue	<u>19,741</u>	<u>-</u>	<u>19,741</u>
Total non-operating revenue	<u>19,741</u>	<u>-</u>	<u>19,741</u>
Change in net position	19,741	5,000	(5,000)
Net position, beginning of period	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Net position, end of period	<u>\$ 24,741</u>	<u>5,000</u>	<u>19,741</u>

The Statement Revenues, Expenses and Changes in Net Position shows how the Agency's net position changed during the fiscal year. In the case of the Agency, the net position increased \$19,741 to \$24,741, as a result of current year non-operating revenue. In the fiscal year 2019, the Agency's net position amounted to \$5,000 in the first year of operation.

In fiscal year 2020, the Agency's revenue increased \$200,995 to \$226,556, primarily due to increases of \$205,529 in member assessments offset by a decrease of \$4,534 in administrative assessments. In fiscal year 2019, the Agency's revenue amounted to \$25,561 sourcing from member and administrative assessments in the first year of operation.

In fiscal year 2020, the Agency's expenses increased \$205,995 to \$226,556, primarily due to an increase of \$210,529 in Ground Water Sustainability Plan expenses offset by a decrease of \$4,534 in general and administrative expenses. In fiscal year 2019, the Agency's expenses amounted to \$20,561 sourcing from \$15,529 in administrative expenses and \$5,302 in professional services in first year of operation.

In fiscal year 2020, the Agency's non-operating revenue amounted to \$19,741 sourcing from a Department of Water Resources sustainable groundwater planning grant. In fiscal year 2019, there was no contribution activity.

Spadra Basin Groundwater Sustainability Agency
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Conditions Affecting Current Financial Position

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

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 periods.

Requests for Information

This financial report is designed to provide the Agency's present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the Agency's finances and to demonstrate the Agency's accountability with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Agency's Treasurer, Josh Byerrum at Spadra Basin Groundwater Sustainability Agency at 271 S. Brea Canyon Rd., Walnut, California 91789 or (909) 595-7554.

Basic Financial Statements

Spadra Basin Groundwater Sustainability Agency
Statements of Net Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 4,701	3,992
Accounts receivable – member agencies	<u>41,931</u>	<u>7,773</u>
Total current assets	<u>46,632</u>	<u>11,765</u>
Current liabilities:		
Accounts payable – member agencies	<u>21,891</u>	<u>6,765</u>
Total current liabilities	<u>21,891</u>	<u>6,765</u>
Net position:		
Unrestricted	<u>24,741</u>	<u>5,000</u>
Total net position	<u>\$ 24,741</u>	<u>5,000</u>

See accompanying notes to the basic financial statements

Spadra Basin Groundwater Sustainability Agency
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Administrative assessments	\$ 10,725	15,259
Member assessments	<u>215,831</u>	<u>10,302</u>
Total operating revenues	<u>226,556</u>	<u>25,561</u>
Operating expenses:		
General and administrative	10,725	15,259
Groundwater Sustainability Plan	<u>215,831</u>	<u>5,302</u>
Total operating expenses	<u>226,556</u>	<u>20,561</u>
Net income before non-operating revenue	<u>-</u>	<u>5,000</u>
Non-operating revenue:		
Sustainable Groundwater Planning Grant – DWR	<u>19,741</u>	<u>-</u>
Change in net position	19,741	5,000
Net position, beginning of period	<u>5,000</u>	<u>-</u>
Net position, end of period	<u><u>\$ 24,741</u></u>	<u><u>5,000</u></u>

See accompanying notes to the basic financial statements

Spadra Basin Groundwater Sustainability Agency
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash receipts from administrative and member assessments	\$ 192,398	17,788
Cash received from grants	19,741	-
Cash paid to vendors and suppliers for materials and services	<u>(211,430)</u>	<u>(13,796)</u>
Net cash provided by operating activities	<u>709</u>	<u>3,992</u>
Net increase in cash and cash equivalents	709	3,992
Cash and cash equivalents – beginning of year	<u>3,992</u>	<u>-</u>
Cash and cash equivalents – end of year	<u><u>\$ 4,701</u></u>	<u><u>3,992</u></u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating Income	\$ <u>19,741</u>	<u>5,000</u>
Changes in assets and liabilities		
(Increase) decrease in assets:		
Accounts receivable	-	(2,257)
Accounts receivable – member assessments	(34,158)	(5,516)
Increase (decrease) in liabilities :		
Accounts payable	-	1,235
Accounts payable – member assessments	<u>15,126</u>	<u>5,530</u>
Total adjustments	<u>(19,032)</u>	<u>(1,008)</u>
Net cash provided by operating activities	<u><u>\$ 709</u></u>	<u><u>3,992</u></u>

Spadra Basin Groundwater Sustainability Agency
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Spadra Basin Groundwater Sustainability Agency (Agency) was formed in February 28, 2017 by the execution of a Memorandum of Agreement between Walnut Valley Water District (WVWD) and the City of Pomona (City) to meet the requirements of the Sustainable Groundwater Management Act of 2014. The Agency's purpose is to develop and implement a Groundwater Sustainability Plan to sustainably manage the Basin in compliance with the Act's requirements. The Spadra basin is located in the San Gabriel Valley, in the western portion of the City of Pomona. The Agency is governed by an appointed Executive Committee comprised of one member and one alternative member from WVWD and the City.

B. Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of managing the basin on a continuing basis be financed or recovered primarily through member assessments, capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses result from exchange transactions associated with the principal activity of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenue.

C. Financial Reporting

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

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

Governmental Accounting Standards Board Statement No. 95

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

D. Assets, Liabilities and Net Position

1. Use of Estimates

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

Spadra Basin Groundwater Sustainability Agency
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

D. Assets, Liabilities and Net Position, continued

2. Uncertainty

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

3. Cash and Cash Equivalents

Substantially, all of the Agency's cash is held in a financial institution bank account. The Agency considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

4. Accounts Receivable

The Agency extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes all accounts are collectible at June 30. When management deems customer accounts uncollectible, the Agency uses the direct write off method for the write-off those accounts to bad debt expense. As of June 30, 2020, and 2019, there is no allowance for uncollectible accounts as management believes all accounts will be collected, respectively.

5. Revenue Recognition

Assessments are recognized as revenue at the time each member agency is invoiced.

6. Net Position

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

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

Spadra Basin Groundwater Sustainability Agency
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Cash Equivalents

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

	2020	2019
Cash and cash equivalents	\$ 4,701	3,992

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

	2020	2019
Deposits with financial institutions	\$ 4,701	3,992
Total cash and cash equivalents	\$ 4,701	3,992

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Agency’s investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were 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.

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

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

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

Governmental Accounting Standards Board Statement No. 84

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

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

Spadra Basin Groundwater Sustainability Agency
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 84, continued

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

Governmental Accounting Standards Board Statement No. 87

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

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

Governmental Accounting Standards Board Statement No. 89

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

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.

Spadra Basin Groundwater Sustainability Agency
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 90

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

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

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

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

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.

Spadra Basin Groundwater Sustainability Agency
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 91, continued

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

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

Governmental Accounting Standards Board Statement No. 92

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

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

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.

Spadra Basin Groundwater Sustainability Agency
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 93, continued

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

Governmental Accounting Standards Board Statement No. 94

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

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

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

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.

Spadra Basin Groundwater Sustainability Agency
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(3) 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.

(4) Contingencies

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.

Grant Awards

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

Spadra Basin Groundwater Sustainability Agency
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(4) Contingencies, continued

COVID-19 Pandemic

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

(5) Subsequent Events

Management is not aware of any events or transactions, including estimates that provide additional evidence about conditions that existed at June 30, 2020, or arose subsequent to that date and are considered inherent in the process of preparing these financial statements.

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Report on Internal Controls and Compliance



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

Executive Committee
Spadra Basin Groundwater Sustainability Agency
Walnut, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Spadra Basin Groundwater Sustainability Agency (Agency) as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprises the Agency's basic financial statements, and have issued our report thereon dated January 4, 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 Control 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP

Cypress, California

January 4, 2021