

SAN JUAN BASIN AUTHORITY
Annual Financial Report
For the Year Ended June 30, 2020

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Annual Financial Report
For the Year Ended June 30, 2020**

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Independent Auditor's Report

To the Board of Directors
San Juan Basin Authority
Rancho Santa Margarita, California

We have audited the accompanying financial statements of the San Juan Basin Authority (Authority), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Juan Basin Authority, as of June 30, 2020, and the changes in its financial position and its cash flows 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Macias Gini & O'Connell LLP

San Diego, California
December 18, 2020

SAN JUAN BASIN AUTHORITY
Management’s Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2020

This section of the San Juan Basin Authority’s (Authority) annual financial report presents our analysis of the Authority’s financial objectives and performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Mission Statement of the Authority:

To develop and maintain a reliable, high-quality, economical local water supply for residents in the San Juan Basin by maximizing water use through management of local ground and surface water of San Juan Creek and its tributaries, with due consideration for preservation, enhancement, and conservation of the environment, including, but not limited to, the natural resources, fish and wildlife, infrastructure improvements, and the cultural heritage of the area.

Keeping the mission statement in mind, the Authority’s major objective was to obtain a Water Rights Permit from the State Water Resources Control Board (“SWRCB”). This permit, approved in October 2000, allows the Authority to secure a right to divert authorized amounts of water from the San Juan Basin that can be used for beneficial purposes in accordance with the Authority’s stated mission. The permit contains specific requirements for the monitoring and management of the San Juan Basin Authority.

Annual Operating Budget

The operating budget includes proposed expenses and the means of financing them. The Authority’s operating budget remains in effect the entire fiscal year but can be revised to add project expenses with approval by the Board of Directors. The goal of each year’s work effort is to complete the tasks as outlined in the budget and not to accumulate funds for other purposes.

The total amended operating budget for the Authority for the fiscal years 2020 and 2019 was \$873,300 and \$992,100, respectively. The funds collected from the member agencies as a result of the annual budget process are used to accomplish certain defined tasks. At the end of the fiscal year, the unexpended funds are normally rolled forward to the next fiscal year and incorporated into the next budget process.

A comparison of member assessments for participation are as follows:

	<u>Fiscal Year 2020</u>	<u>Fiscal Year 2019</u>
Total Assessments	\$ 873,300	\$ 923,562

SAN JUAN BASIN AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2020

The Authority's management has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide assurance that assets are safeguarded and that the records reflect only authorized transactions. The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's internal financial staff.

Financial Highlights

- In 2020, the Authority provided its Member Agencies with a credit of \$687,150 offsetting the member agency assessments of \$873,300 due to excess cash on hand. No credit or distribution was necessary in 2019.
- In 2020, the Authority's net position decreased by \$414,726 from \$662,034 to \$247,308 primarily due to the assessment credit mentioned above, as well as decreased spending in engineering as well as a decrease in depreciation expense, as the Authority's assets were fully depreciated at the end of last year.

Required Financial Statements

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

The Statement of Net Position includes all of the Authority's investments and resources (assets) and the obligations to creditors (liabilities) as well as deferred inflows of resources. It also provides the basis for evaluating the liquidity and financial flexibility of the Authority. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Change in Net Position. This statement measures the change in the Authority's net position due to operating and non-operating resources. The final required financial statement is the Statement of Cash Flows, which provides information about the Authority'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, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Change in Net Position report information about the Authority in a way that helps answer this question. These statements include all assets, liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

SAN JUAN BASIN AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2020

These two statements report the Authority's net position and the related changes. The Authority's net position – the difference between assets and liabilities and deferred inflow of resources – is one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, one needs to consider other non-financial factors such as changes in economic conditions.

Management believes that its policies and procedures provide assurance that the Authority's operations are conducted according to a high standard of business ethics. The financial statements present the financial position of the Authority in conformity with Generally Accepted Accounting Principles.

Condensed Statement of Net Position

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Assets			
Current Assets	\$ 1,800,802	\$ 2,142,091	\$ (341,289)
Non-current Assets	12,836,797	14,221,400	(1,384,603)
Total Assets	<u>14,637,599</u>	<u>16,363,491</u>	<u>(1,725,892)</u>
Liabilities			
Current Liabilities	1,526,826	1,451,538	75,288
Non-current Liabilities	12,836,797	14,221,400	(1,384,603)
Total Liabilities	<u>14,363,623</u>	<u>15,672,938</u>	<u>(1,309,315)</u>
Deferred Inflows of Resources	<u>26,668</u>	<u>28,519</u>	<u>(1,851)</u>
Net Position:			
Unrestricted	<u>\$ 247,308</u>	<u>\$ 662,034</u>	<u>\$ (414,726)</u>

The changes in total assets, liabilities, deferred inflows of resources and net position are primarily the result of decreases in both the lease receivable and the bonds payable due to scheduled principal payment. The ending cash balance decreased in fiscal year 2020, primarily due to the member agency credits that offset the assessments. Additionally, the loan receivable (asset) and loan payable (liability) both decreased as scheduled payments were made for the debt that were also receivable from the City of San Juan Capistrano. These debt service payments are made directly from the City of San Juan Capistrano to the trustee, and thus no cash is received or paid by the Authority.

SAN JUAN BASIN AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2020

Condensed Statement of Revenues,
Expenses and Change in Net Position

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Revenues:			
Operating revenues	\$ 193,950	\$ 923,562	\$ (729,612)
Non-operating revenues	<u>569,118</u>	<u>619,532</u>	<u>(50,414)</u>
Total revenues	<u>763,068</u>	<u>1,543,094</u>	<u>(780,026)</u>
Expenses:			
Operating expenses	610,663	645,281	(34,618)
Depreciation expense	-	6,494	(6,494)
Non-operating expenses	<u>567,131</u>	<u>617,526</u>	<u>(50,395)</u>
Total expenses	<u>1,177,794</u>	<u>1,269,301</u>	<u>(91,507)</u>
Change in net position	<u>(414,726)</u>	<u>273,793</u>	<u>(688,519)</u>
Net position - beginning of year	<u>662,034</u>	<u>388,241</u>	<u>273,793</u>
Net position - end of year	<u>\$ 247,308</u>	<u>\$ 662,034</u>	<u>\$ (414,726)</u>

The Statement of Revenues, Expenses and Change in Net Position shows how the government's net position changed during the fiscal year. In the case of the Authority, net position decreased by \$414,726 during the fiscal year ended June 30, 2020. The decrease in total revenues is driven by the member agency credits disbursed in FY 2020, that were not needed in FY 2019. Total expenses decreased by \$91,507. This is primarily due a decrease in non-operating expenses driven by the decrease in interest expense related to the bonds payable as the principal is reduced year over year. Additionally, operating expenses decreased by \$34,618 as budgeted spending decreased for special projects such as the investigation of the "bedrock high" in the Lower San Juan Basin, which is an important geologic impediment to groundwater circulation in that area.

The Authority Consists of Four Member Agencies. The Santa Margarita Water District (SMWD), Moulton Niguel Water District (MNWD), City of San Juan Capistrano (CSJC) and South Coast Water District (SCWD) are member agencies of the Authority. The Authority has several projects that each member agency may participate in based on their own particular needs. The schedules below reflect their individual participation in activities as a percentage and the change in member agency individual fund balances.

SAN JUAN BASIN AUTHORITY
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2020

Activity Category Participation
For the Year Ended June 30, 2020

	General fund	Ortega Well	Well Field	Recycled Water	Groundwater Production Support	Melded Monitoring Costs	Water Rights	San Juan Watershed Project
SMWD	25%	50%	50%	73%	20%	33%	25%	80%
MNWD	25%	0%	0%	24%	10%	13%	25%	0%
CSJC	25%	50%	50%	3%	35%	27%	25%	0%
SCWD	25%	0%	0%	0%	35%	27%	25%	20%
	100%	100%	100%	100%	100%	100%	100%	100%

The Authority Adopts an Annual Operating Budget. The Operating Budget includes proposed expenses and the means of financing them. The Authority's operating budget remains in effect the entire year but may be adjusted by Board approval. Long term debt decreased by the scheduled payment of principal.

Contacting the Authority's Financial Management. The Authority's basic financial statements are designed to demonstrate the Authority's accountability. If you have any questions about the annual report or need additional information, please contact the Authority's Treasurer at 26111 Antonio Parkway, Rancho Santa Margarita, CA 92688.

SAN JUAN BASIN AUTHORITY
Statement of Net Position
June 30, 2020

ASSETS

Current Assets

Cash and investments (note 2)	\$	368,667
City of San Juan Capistrano lease receivable - current (notes 3 & 5)		1,384,603
Accounts receivable - other		23
Accrued interest receivable		44,106
Prepaid expenses		3,403
Total Current Assets		1,800,802

Non-current Assets

Restricted - City of San Juan Capistrano lease receivable - non-current (notes 3 & 5)		12,836,797
Total Non-current Assets		12,836,797

Total Assets		14,637,599
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LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities		98,117
Accrued interest payable		44,106
Bonds payable - current (note 5)		1,384,603
Total Current Liabilities		1,526,826

Non-current Liabilities

Bonds payable, less current portion (note 5)		12,836,797
Total Non-current Liabilities		12,836,797

Total Liabilities		14,363,623
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows on debt defeasance (note 5)		26,668
		26,668

NET POSITION

Unrestricted		247,308
Total Net Position		\$ 247,308

See accompanying notes to the basic financial statements

SAN JUAN BASIN AUTHORITY
Statement of Revenues, Expenses and Change in Net Position
For the Fiscal Year Ended June 30, 2020

Operating Revenues:	
Member agency assessments	\$ 873,300
Member agency assessment credits	(687,150)
Member agency reimbursement	7,800
Total Operating Revenues	193,950
 Operating Expenses:	
Accounting (note 6)	24,241
Engineering	404,062
Legal	37,417
Administration and management support (note 6)	144,943
Total Operating Expenses	610,663
Operating (Loss)	(416,713)
 Non-operating Revenues (Expenses)	
Interest expense	(567,131)
Investment income - lease	568,982
Other investment income and miscellaneous income	136
Total Non-operating Revenues	1,987
Change in Net Position	(414,726)
Net Position - beginning of year	662,034
Net Position - end of year	\$ 247,308

See accompanying notes to the basic financial statements.

SAN JUAN BASIN AUTHORITY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Cash flow from operating activities:	
Cash receipts from member agency assessments	\$ 193,950
Cash paid to vendors and suppliers for materials and services	<u>(587,063)</u>
Net cash used in operating activities	<u>(393,113)</u>
 Cash flows from non-capital financing activities:	
City of San Juan Capistrano lease receipts	<u>1,901,897</u>
Net cash provided by non-capital financing activities	<u>1,901,897</u>
 Cash flows from capital and related financing activities:	
Principal paid for debt service	(1,328,794)
Interest paid for debt service	<u>(573,103)</u>
Net cash used in capital and related financing activities	<u>(1,901,897)</u>
 Net (decrease) in cash and cash equivalents	 (393,113)
 Cash and cash equivalents at June 30, 2019	 <u>755,033</u>
Cash and cash equivalents at June 30, 2020	\$ <u>361,920</u>

See accompanying notes to the basic financial statements.

SAN JUAN BASIN AUTHORITY
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

Reconciliation of cash and cash equivalents to amounts reported on the statement of net position:

Cash and cash equivalents	\$ 361,920
Investments	6,747
Total cash and investments	\$ 368,667

Reconciliation of operating income to net cash (used in) operating activities:

Operating (loss)	\$ (416,713)
Change in liabilities - increase(decrease):	
Accounts payable and accrued expenses	23,600
Total adjustments	23,600
Net cash (used in) operating activities	\$ (393,113)

Supplemental disclosure of non-cash capital and related financing activities

Amortization of debt defeasance	\$ 1,851
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See accompanying notes to the basic financial statements.

SAN JUAN BASIN AUTHORITY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

1. Organization and Summary of Significant Accounting Policies

Reporting Entity

The San Juan Basin Authority (Authority) is a public entity created for the joint exercise of common powers pursuant to a Joint Exercise of Powers Agreement dated November 22, 1972, by and between the member agencies: Capistrano Beach County Water District (CBWD) (predecessor of Capistrano Beach Water District), Capistrano Valley Water District (CVWD) and the Santa Margarita Water District (SMWD). Moulton Niguel Water District (MNWD) and Trabuco Canyon Water District (TCWD) were subsequently admitted as members to the Authority. Capistrano Beach Water District (CBWD) and TCWD withdrew as member agencies effective April 5, 1989 and June 30, 1997, respectively. Effective in 1997, the City of San Juan Capistrano (CSJC) became the successor Agency of the CVWD. Effective April 7, 1998, CBWD was readmitted as a member to the Authority. Effective January 1, 1999, CBWD was dissolved and the South Coast Water District (SCWD) became the successor entity. The Authority was formed under the powers granted to the member agencies pursuant to Article 1, Chapter 5, Division 7, Title 1 of the California Government Code. The Authority is a joint venture of the member agencies - SMWD, MNWD, CSJC and SCWD.

The Authority was created to plan, acquire, construct, maintain, repair, operate and control facilities to supply the inhabitants and lands within each of the member agencies' boundaries with water and provide for the development and conservation of water supplies.

The Authority currently has eight activity categories to administer and develop various projects or activities for the benefit of the member agencies. Member agencies may elect to participate in each of the Authority's activities and are assessed annually for the estimated costs to be incurred related to each project activity based upon proportionate benefit derived. Member agency assessments were made for the year ended June 30, 2020, as directed by the Board of Directors.

The powers and functions of the Authority are exercised by a Board of Directors, of which one Director may be appointed by each of the Board of Directors of the member agencies. Each Director holds office until a successor Director is appointed, serves at the pleasure of the legislative body of the appointing member agency and may be removed at any time, with or without cause, at the sole discretion of such legislative body.

Basis of Accounting

The accounting policies of the Authority's basic financial statements conform with accounting principles generally accepted in the United States of America applicable to state and local government agencies using pronouncements issued by the Governmental Accounting Standards Board (GASB) and as such, the Authority reports its activities as an enterprise fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, 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.

SAN JUAN BASIN AUTHORITY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Operating revenues and expenses result from the Authority's activities to operate and maintain the facilities within the member agencies' boundaries. The operating revenues consist of charges to the member agencies for annual assessments. Operating expenses include the costs of providing the operation and maintenance of the facilities and administrative expenses. All revenues and expenses not meeting these definitions, and which are not capital in nature are reported in non-operating revenues and expenses.

The Authority derives all its operating revenue from member agency assessments, which are based on the adopted fiscal year budget. The member agencies are assessed based on proportionate participation and benefit. Non-operating activities include interest income and expenses from the lease agreement and revenue bonds, and member agency distributions.

Use of Estimates

The financial statements are in conformity with accounting principles generally accepted in the United States and requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows of resources and disclosures as of June 30, 2020, and revenues and expenses for the year then ended. Actual results could differ from those estimates.

Cash and Investments

The Authority has not adopted an investment policy but adheres to the California Government Code.

Substantially all of the Authority's cash is held in a checking account. The Authority considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents, except for the Authority's investment in California Local Agency Investment Pool (LAIF) which is considered an investment.

The Authority records investments at fair value and changes in fair value are recorded as unrealized gains or losses. Investment income is comprised of interest earnings, changes in fair value, and any gain or loss realized upon the liquidation on or sale of investment.

City of San Juan Capistrano Lease Agreement

On December 1, 2002, a lease agreement was executed related to the lease payments to be made by the CVWD and later assigned to CSJC to service the debt. The note receivable was originally in the amount of \$29,302,462. CSJC makes the lease agreement payments from pledged revenues to the bond fiscal agent to make the bond debt service payments. The Authority recorded the full lease receivable as an asset at the time that the bonds payable was recorded. When the lease payments are received from CSJC, the asset is reduced. When the debt service payments are made twice a year, the bond payable is reduced, and applicable interest is expensed. In November 2014, CSJC issued \$20,361,090 in Lease Revenue Bonds and the proceeds were used to refund the 2002 bonds. See Notes 3 and 5 to the basic financial statements for further information.

SAN JUAN BASIN AUTHORITY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Contributed assets, which consist mainly of pipelines, wells and pump stations, are recorded as contributed facilities based on acquisition value. Depreciation on contributed facilities are charged the same as on purchased assets, using the straight-line method based on estimated lives which range from 10 to 40 years, consisting primarily of diversion structure over 20 years, wells over 25 years, and pump stations and pipelines over 40 years. Equipment that has been determined to have no useful life or value is removed from the records when such determination has been made by management.

Member Agencies' Net Position

Costs are applied directly against deposits received from member agencies. Costs are allocated between member agencies based on ownership or usage. Interest earned on member agency deposits is allocated to the member agencies on a monthly basis in accordance with their relative deposit balances. At the end of each fiscal year, operating surplus balances are refunded to member agencies or added to their net position as determined by the Board of Directors.

Net Position

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

- Unrestricted Net Position – This component of net position is the net amount of assets, 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.

New Accounting Pronouncements

Adopted in the Current Year

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Effective immediately upon issuance in May 2020. There was no impact to the Authority.

Effective in Future Years

The Government Accounting Standards Board (GASB) has issued pronouncements that will impact future financial presentations. Management has not currently determined the impact, if any, of the newly issued pronouncements.

GASB Statement No. 84, *Fiduciary Activities*. Effective for the Authority's fiscal year ending June 30, 2021.

GASB Statement No. 87, *Leases*. Effective for the Authority's fiscal year ending June 30, 2022.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Effective for the Authority's fiscal year ending June 30, 2022.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. Effective for the Authority's fiscal year ending June 30, 2021.

SAN JUAN BASIN AUTHORITY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

1. Organization and Summary of Significant Accounting Policies (continued)

GASB Statement No. 91, *Conduit Debt Obligations*. Effective for the Authority’s fiscal year ending June 30, 2023.

GASB Statement No. 92, *Omnibus 2020*. Effective upon issuance for the requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, *reinsurance recoveries, and terminology used to refer to derivative instruments*. The other requirements will be effective for the Authority’s fiscal year ending June 30, 2022.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. Effective for the Authority’s fiscal year ending June 30, 2023.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Effective for the Authority’s fiscal year ending June 30, 2023.

GASB 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. 14 and No. 84, and a supersession of GASB Statement No. 32*. Effective for the Authority’s fiscal year ending June 30, 2022.

2. Cash and Investments

Cash and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

Cash in bank	\$	361,920
California Local Agency Investment Pool (LAIF)		<u>6,747</u>
Total cash and investments	\$	<u>368,667</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Generally, 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 does 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 a state or local government 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

SAN JUAN BASIN AUTHORITY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

2. Cash and Investments (continued)

public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the \$412,754 in bank balances, the federally insured amount is limited up to \$250,000 per bank, and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Authority's name.

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section §16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority'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. LAIF is part of the California Pooled Money Investment Account (PMIA): included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. At June 30, 2020, LAIF had a total portfolio of approximately \$101.8 billion. The average maturity of PMIA investments was 191 days as of June 30, 2020. The amounts invested in LAIF are recorded as cash and investments. As of June 30, 2020, the Authority's total investment in LAIF was \$6,747.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes 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 changes in market interest rates. The following shows the Authority's distribution of investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (In Months)</u>	
	<u>Total</u>	<u>3 Months or Less</u>
State investment pool (LAIF)	\$ 6,747	\$ 6,747
	\$ 6,747	\$ 6,747

SAN JUAN BASIN AUTHORITY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

2. Cash and Investments (continued)

Disclosures Relating to 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. Presented below is the minimum rating required by (where applicable) the California Government Code, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Total</u>	Minimum Legal <u>Rating</u>	<u>Rating as of Year End</u> <u>Not Rated</u>
State investment pool (LAIF)	\$ 6,747	N/A	\$ 6,747
	<u>\$ 6,747</u>		<u>\$ 6,747</u>

3. City of San Juan Capistrano (CSJC) Lease Receivable

On December 1, 2002, the Authority entered into a direct financing lease agreement with CSJC in conjunction with the issuance and payment of the 2002 Lease Revenue Bonds for the construction of the Desalter Treatment Plant. The lease payments are equal to the principal and interest of the debt service requirements of the bonds. In November 2014, CSJC issued \$20,361,090 in Lease Revenue Bonds and the proceeds were used to refund the 2002 bonds. When the 2002 bonds were refunded, the lease agreement related to those bonds was replaced with an amended and restated lease agreement with CSJC in conjunction with the issuance of the 2014 Lease Revenue Bonds. As of June 30, 2020, the outstanding lease receivable totaled \$14,221,400. See Note 5 to the basic financial statements for additional information related to bonds.

4. Capital Assets

A summary of changes in capital assets is as follows:

	Balance at <u>July 1, 2019</u>	<u>Additions</u>	Retirements/ <u>Dispositions</u>	Balance at <u>June 30, 2020</u>
Water facilities, wells and pipelines	\$ 1,171,719	\$ -	\$ -	\$ 1,171,719
Accumulated depreciation	(1,171,719)	-	-	(1,171,719)
Net capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the year ended June 30, 2020, was \$0 as the capital assets are fully depreciated.

SAN JUAN BASIN AUTHORITY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

5. Bonds Payable

The activity relating to the bonds payable was as follows:

	Balance at <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2020</u>	Amount Due Within <u>One Year</u>	Amount Due Beyond <u>One Year</u>
2014 Lease revenue bonds	\$ 15,550,194	\$ -	\$ (1,328,794)	\$ 14,221,400	\$ 1,384,603	\$ 12,836,797
Bonds payable	<u>\$ 15,550,194</u>	<u>\$ -</u>	<u>\$ (1,328,794)</u>	<u>\$ 14,221,400</u>	<u>\$ 1,384,603</u>	<u>\$ 12,836,797</u>

On December 11, 2002, the Authority issued lease revenue bonds (Bonds) in the amount of \$31,555,000 for the Ground Water Recovery Project. The Bonds are special limited obligations of the Authority payable solely from the trustee estate, including lease payments to be made by CSJC to the Authority solely from revenues of the CSJC Water Enterprise Fund pursuant to the lease agreement between the CSJC and the Authority. The Authority pledges the annual lease payments received from CSJC to make the debt service payments as they come due.

The proceeds of the Bonds were applied to finance and reimburse the costs of the design, development, acquisition and construction of a groundwater recovery plant and related improvements and facilities, fund a debt service reserve fund securing the Bonds, fund capitalized interest through June 1, 2004 and pay certain costs of issuance of the Bonds.

In November 2014, the Authority issued \$20,361,090 in Lease Revenue Bonds with a fixed interest rate of 3.85%. The proceeds of the bonds were used for the current refunding of the 2002 Lease Revenue Bonds, which had an average interest rate of 5.03%. The final maturity date of the bonds remains the same, at December 2034. The previously required debt reserve of approximately \$2.3 million was utilized in the refunding (a debt reserve is no longer required). The outstanding bond balance at June 30, 2020, is \$14,221,400.

Scheduled future payments by the Authority for the Bonds payable are as follows:

Fiscal Year	Principal	Interest	Total
<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	1,384,603	520,870	1,905,473
2022	1,433,622	466,619	1,900,241
2023	1,489,567	410,348	1,899,915
2024	1,548,915	351,857	1,900,772
2025	1,606,548	291,115	1,897,663
2026-2030	3,058,531	1,015,288	4,073,819
2030-2035	3,699,614	366,865	4,066,479
	<u>\$ 14,221,400</u>	<u>\$ 3,422,962</u>	<u>\$ 17,644,362</u>

SAN JUAN BASIN AUTHORITY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

5. Bonds Payable (continued)

During the 2014 refunding of the Lease Revenue Bonds, the difference between the reacquisition price and the carrying amount of the old debt resulted in a gain, which is included as a deferred inflow of resources on the accompanying Statement of Net Position and amortized over the maturity of the refunding debt under the straight-line method. The balance on the deferred gain on debt defeasance as of June 30, 2020, is as follows:

	Balance at June 30, 2019	Additions	Reductions	Balance at June 30, 2020
2014 Lease Revenue Bond	28,519	-	(1,851)	26,668
	\$ 28,519	\$ -	\$ (1,851)	\$ 26,668

6. Related Party Transactions

SMWD provides accounting and administrative services based on an hourly rate for the Authority. The total expenses incurred for services for the year ended June 30, 2020, was \$19,929 of which \$15,753 is included in accounting expenses and \$4,176 in administration and management support on the Statement of Revenues, Expenses and Change in Net Position.

7. Commitments and Contingencies

The Authority believes there are no existing matters which will have a material adverse effect on the Authority's financial position. In the opinion of the Authority's Counsel, the Authority had no material claims which would require loss provisions in the financial statement.

8. Risk Management

The Authority has commercial general liability coverage. The Authority believes there are no existing matters which will have a material adverse effect on the Authority's financial position. There were no significant settlements, or reductions in insurance coverage from settlements, for the past three years.

SAN JUAN BASIN AUTHORITY
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2020

9. Subsequent Event

On October 1, 2019, the City of San Juan Capistrano gave its notice of intent to withdraw from the Authority as required by section 37 of the Authority's enabling agreement (Joint Exercise of Powers Agreement). As provided by Section 34 of the Joint Exercise of Powers Agreement, the City intends to enter into an agreement with each member affected by the City's withdrawal from the Authority to acknowledge the member's consent. The City intends to withdraw upon the successful annexation of the City's water and sewer utilities into Santa Margarita Water District (SMWD). Upon that annexation, SMWD will be assuming the rights and responsibilities of the City regarding the Authority. As a result, the City's withdrawal is not expected to independently or directly impact the other member agencies. Any agreements regarding potential impacts are expected to be between the City and the Authority, acting corporately on behalf of the Authority's members.

In March 2020, the World Health Organization ("WHO") declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Authority at this time.

SAN JUAN BASIN AUTHORITY
Schedule of Net Position by
Member Agency (Unaudited)
For the Fiscal Year Ended June 30, 2020

	SMWD	MNWD	City of SJC	SCWD	TOTAL
Assessments Received	\$ 290,076	\$ 153,556	\$ 216,229	\$ 213,439	\$ 873,300
Assessment Credits	(195,858)	(151,107)	(168,852)	(171,333)	(687,150)
Member Agency Reimbursements	7,800	-	-	-	7,800
Investment Income	34	34	569,016	34	569,118
Operating Expenses	(201,361)	(105,693)	(153,600)	(150,009)	(610,663)
Interest Expense	-	-	(567,131)	-	(567,131)
Change in Net Position	(99,309)	(103,210)	(104,338)	(107,869)	(414,726)
Net Position - Beginning of Year	238,369	141,679	131,067	150,919	662,034
Net Position - End of Year	<u>\$ 139,060</u>	<u>\$ 38,469</u>	<u>\$ 26,729</u>	<u>\$ 43,050</u>	<u>\$ 247,308</u>