

**UTILITY AUTHORITY OF THE
CITY OF LA HABRA, CALIFORNIA**

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

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
For the Year Ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Utility Authority of the City of La Habra
La Habra, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Utility Authority of the City of La Habra (the Utility Authority), a component unit of the City of La Habra (the City), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Utility 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider internal control relevant to the Utility 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 Utility 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 Utility Authority as of June 30, 2020, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note (1)(a), the financial statements present only the Utility Authority and do not purport to, and do not present fairly the financial position of the City of La Habra, California, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of proportionate share of the net pension liability and schedule of contribution for the cost sharing defined benefit pension plan identified as Required Supplementary Information (RSI) in the accompanying 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 RSI 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 RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Utility Authority's basic financial statements. The combining statements (supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021, on our consideration of the Utility Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Irvine, California
January 29, 2021

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Statement of Net Position
June 30, 2020

Assets:

Current assets:

Equity in City's investment pool	\$ 9,875,422
Accounts receivable, net	2,558,029
Interest receivable	23,526
Due from other government	-
Inventory	250,416
Total current assets	<u>12,707,393</u>

Noncurrent assets:

Cash and investments with fiscal agents	40,703
Investment in water rights stock	17,713,917
Loan to City of La Habra	750,000

Capital assets:

Not being depreciated	3,690,995
Being depreciated, net	36,446,411
Total noncurrent assets	<u>58,642,026</u>

Total assets	<u>71,349,419</u>
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Deferred outflows of resources:

Unamortized loss on refunding of debt	761,129
Deferred amount from pension plans	475,317
Total deferred outflows of resources	<u>1,236,446</u>

Liabilities:

Current liabilities:

Accounts payable	1,786,270
Accrued liabilities	80,340
Accrued interest	233,289
Deposits payable	269,388
Current portion of capital leases	606,100
Current portion of water revenue bonds	875,000
Current portion of compensated absences	63,083
Total noncurrent liabilities	<u>3,913,470</u>

Noncurrent liabilities:

Capital leases, net of current portion	4,481,401
Water revenue bonds, net of current portion	33,689,501
Compensated absences, net of current portion	147,195
Net pension liability	3,569,141
Deferred rent	6,872,515
Total noncurrent liabilities	<u>48,759,753</u>

Total liabilities	<u>52,673,223</u>
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Deferred inflows of resources:

Deferred amount from pension plans	120,402
Total deferred inflows of resources	<u>120,402</u>

Net position:

Net investment in capital assets	13,144,023
Unrestricted	6,648,217
Total net position	<u>\$ 19,792,240</u>

See Accompanying Notes to Financial Statements.

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

Operating revenues:	
Water sales	\$ 15,612,249
Charges for services	2,509,768
Other	145,637
Total operating revenues	18,267,654
Operating expenses:	
Water and materials	4,517,216
Contractual services	1,177,951
Wages and fringe benefits	3,420,686
Equipment and maintenance	1,343,926
Materials and supplies	317,629
Utilities	434,962
Depreciation	1,428,327
Administration	2,502,765
Total operating expenses	15,143,462
Operating income	3,124,192
Nonoperating revenues (expenses):	
Investment income	221,459
Interest expense	(2,582,349)
Gain on sale of investments	167,002
Federal interest subsidy	172,346
Transfer to the City of La Habra	(87,500)
Total nonoperating revenues (expenses), net	(2,363,652)
Change in net position	760,540
Net position, beginning of year	19,031,700
Net position, end of year	\$ 19,792,240

See Accompanying Notes to Financial Statements.

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash flows from operating activities:	
Receipts from customers and users	\$ 17,751,200
Payments to suppliers	(9,715,843)
Payments to City of La Habra for operating leases	(267,175)
Payments for employees' salaries and benefits	<u>(2,929,281)</u>
Net cash provided by operating activities	<u>4,838,901</u>
Cash flows from noncapital financing activities:	
Transfers to City of La Habra	(87,500)
Receipts of repayment from City of La Habra	<u>363,660</u>
Net cash provided in noncapital financing activities	<u>276,160</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(3,324,383)
Principal payments on capital leases	(571,792)
Principal payments on bonds	(3,970,000)
Interest paid on bonds and capital leases	(383,341)
Federal interest subsidy received	<u>172,346</u>
Net cash used in capital and related financing activities	<u>(9,064,067)</u>
Cash flows from investing activities:	
Sales of investments	(1,373,498)
Investment income	<u>205,655</u>
Net cash used by investing activities	<u>(1,167,843)</u>
Net increase in cash and cash equivalents	(5,116,849)
Cash and cash equivalents, beginning of year	<u>15,032,974</u>
Cash and cash equivalents, end of year	<u><u>\$ 9,916,125</u></u>
Cash and cash equivalents:	
Cash and investments	\$ 9,875,422
Cash and investments with fiscal agents	<u>40,703</u>
Total cash and cash equivalents	<u><u>\$ 9,916,125</u></u>

(Continued)

See Accompanying Notes to Financial Statements.

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2020

**Reconciliation of operating income to
net cash provided by operating activities**

Operating income	<u>\$ 3,124,192</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,428,327
Change in assets, deferred inflows of resources, liabilities, and deferred outflows of resources:	
(Increase) decrease in accounts receivables	(513,544)
(Increase) decrease in prepaid items	-
(Increase) decrease in inventory	(227,969)
(Increase) decrease in due from other governments	5,802
Increase (decrease) in accounts payable	14,201
Increase (decrease) in accrued liabilities	(80,081)
Increase (decrease) in deposits payable	(8,712)
Increase (decrease) in compensated absences	14,586
Increase (decrease) in deferred rent	628,889
Increase (decrease) in pension liability and related deferred inflows and outflows of resources	<u>453,210</u>
Total adjustments	<u>1,714,709</u>
Net cash provided by operating activities	<u><u>\$ 4,838,901</u></u>

Noncash Capital and Related Financing Transactions

Amortization of unamortized loss on refunding of debt	\$ 18,973
Amortization of bond premium	(310,605)

See Accompanying Notes to Financial Statements.

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements
Year Ended June 30, 2020

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

The Utility Authority of the City of La Habra (Utility Authority), a component unit of the City of La Habra, California (the City), was formed on January 16, 2007, as a joint exercise of powers agreement between the City and the Redevelopment Agency of the City of La Habra (Agency), and began legal operations on July 1, 2007. The Utility Authority was formed by the City and the Agency to maintain and operate the City's Water and Sewer systems. The Utility Authority is responsible for establishing utility rates, performing routine system maintenance, establishing and executing necessary capital improvement plans, purchasing and selling water, and performing other necessary utility system operations. The Utility Authority's Board of Directors is the same as the City Council. Subsequent to the dissolution of the former Redevelopment Agency on February 1, 2012, the City of La Habra Housing Authority joined the Utility Authority as a member on March 5, 2012.

On July 1, 2007, the Utility Authority entered into two lease agreements with the City to lease the City's entire water and sewer systems. In accordance with the agreements, the Utility Authority is required to pay specified lease payments to the City; payments shall be increased annually (but not decreased) by the consumer price index for the Los Angeles, Riverside, and Orange County metropolitan statistical area, as reported by the U.S. Bureau of Labor Statistics. Under the agreements, the Utility Authority assumed all assets and liabilities of the City's Water and Sewer funds as of July 1, 2007; therefore, that portion of the leases relative to the book value of the capitals assets of the funds at that date are recorded as capital lease liabilities. The Utility Authority also entered into two management agreements with the City on July 1, 2007, to have City employees manage the water and sewer systems.

(b) Financial Statements

The financial statements of the Utility Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The more significant of the Utility Authority's accounting principles are described below.

(c) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Utility Authority's resources are allocated to and accounted for in these financial statements as an enterprise fund. The enterprise fund basis of accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Net position represents amounts available for future operations.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources liabilities, and deferred inflows of resources associated with the operation of the Utility Authority are included in the statement of net position. Net position is categorized as net investment in capital assets, restricted and unrestricted. Enterprise fund operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in net total position.

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

The Utility Authority uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Grant revenues are recognized when program expenses are incurred in accordance with program guidelines. If such grant funds are received before the program revenues are earned, they are recorded as unearned revenue until earned.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Utility Authority. Operating revenues consist primarily of water and sewer sales. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

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

(d) Assets, Liabilities, and Net Position

Cash and Cash Equivalents

The Utility Authority pools available cash with the City for investment purposes. The City considers the cash and investment pool to be a demand deposit account where funds may be withdrawn and deposited at any time without prior notice or penalty.

The unspent proceeds from the 2013 Water Revenue Bonds and 2019 Water Revenue Bonds are held by a fiscal agent. At June 30, 2020, the fiscal agent held the unspent proceeds in money market mutual funds and the California Local Agency Investment Fund (LAIF). These amounts are restricted by bond covenants and are to be used for the acquisition of water infrastructure assets and debt service requirements. These investments are considered to be cash equivalents. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Investments

The Utility Authority owns approximately 32% and 56%, respectively, of the outstanding common stock and preferred stock of a mutual water company (investment in water rights stock) at June 30, 2020, and has valued this investment at cost as this stock does not have a readily determinable value and does not meet the requirements of accounting under the equity method (see Note 5). Cost is the amount of the Utility Authority's basis in an investment less any distributions. Investments at cost are analyzed for impairment to determine if events or changes in circumstances indicate the carrying amount of the investment may not be recoverable. An investment is impaired and a loss is recognized in the period when a decline in its fair value below the amortized cost basis is other than temporary. Investment gains and losses are recognized when the investment is sold. Investment earnings, including interest and dividends, are recognized in the period earned.

Capital Assets

Capital assets, which include vehicles, property and equipment, and infrastructure (e.g., wells, pipelines, and similar items) are reported in the Utility Authority's financial statements. Capital assets are leased from the City and are reported at historical cost or

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

estimated historical cost, less depreciation. The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life is not capitalized. Major outlays for capital assets are capitalized as projects are constructed.

Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. The estimated useful lives of depreciable assets are as follows:

<u>Type of Asset</u>	<u>Life in Year</u>
Sewer:	
Main	40
Lateral	40
Manholes	40
Water:	
Pumping equipment	20-25
Reservoirs and mains	40
Meters and hydrants	30
Telemetry	25
Autos and trucks	2-15
Machinery and equipment	3-20
Buildings and improvements	5-40
Infrastructure	30-50
Improvements other than buildings	5-20

Compensated Absences

Employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. Sick leave is payable when used, or upon death or retirement.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expended when incurred.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Utility Authority has the following items that qualify for reporting in this category:

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

- Unamortized loss on refunding of debt reported in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred amount from pension plans (see Note (8)(b) for detail)

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue/contra expense) until that time. The Utility Authority has the following items that qualify for reporting in this category:

- Deferred amount from pension plans (see Note (8)(b) for detail)

Pensions

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

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources and is categorized as net investment in capital assets, restricted and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets, excluding unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Utility Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Utility Authority first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

(e) Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Implementation of Pronouncements

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

The Utility Authority has adopted and implemented the following GASB Statements during the year ended June 30, 2020:

- GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The requirements of this Statement are effective immediately (FY19/20).

(g) Pronouncements Issued but Not Yet Adopted

GASB has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Utility Authority.

- GASB Statement No. 84 – *Fiduciary Activities*. The provision of this Statement are effective for fiscal year ending June 30, 2021.
- GASB Statement No. 87 – *Leases*. The provision of this Statement are effective for fiscal year ending June 30, 2022.
- GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The provision of this Statement are effective for fiscal year ending June 30, 2022.
- GASB Statement No. 90 – *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The provision of this Statement are effective for fiscal year ending June 30, 2021.
- GASB Statement No. 91 – *Conduit Debt Obligations*. The provision of this Statement are effective for fiscal year ending June 30, 2023.
- GASB Statement No. 92 – *Omnibus 2020*. The provision of this Statement are effective for fiscal year ending June 30, 2022.
- GASB Statement No. 93 – *Replacement of Interbank Offered Rates*. The provision of this Statement are effective for fiscal year ending June 30, 2022.
- GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The provision of this Statement are effective for fiscal year ending June 30, 2023.
- GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. The provision of this Statement are effective for 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*. The provision of this Statement are effective for fiscal year ending June 30, 2022. Portions of this Statement related to GASB 84 are effective for fiscal year ending June 30, 2021.

(2) Cash and Cash Equivalents

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

All cash and cash equivalents of the Utility Authority, except those held by fiscal agents, are pooled with the City. The Utility Authority does not own specifically identifiable securities in the City's Investment Pool.

Cash and cash equivalents at June 30, 2020, are classified in the accompanying financial statements as follows:

Equity in City's investment pool	\$ 9,875,422
Cash and cash equivalents held by fiscal agents:	
Money Market Mutual Funds	39,120
LAIF	1,583
Total cash and investments	\$ 9,916,125

Equity in the Cash and Investment Pool of the City of La Habra Utility Authority

The Utility Authority has no separate bank accounts or investments other than its equity in the cash and investment pool managed by the City of La Habra. The Utility Authority is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of La Habra. The Utility Authority has not adopted an investment policy separate from that of the City of La Habra. The fair value of the Utility Authority's investment in the pool is reported in the accompanying financial statements at amounts based upon the Utility Authority's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded at the estimated fair value.

Disclosures Relating to the Investment Policy, Interest Rate Risk and Custodial Credit Risk

Additional disclosures related to the investment policy, interest rate risk, credit risk and custodial credit risk are available in the City of La Habra's Comprehensive Annual Financial Report.

Investments Authorized by the California Government Code and the City of La Habra Adopted Investment Policy

The table below identifies the investment types that are authorized by the California Government Code and by the City's adopted investment policy. The table also identifies certain provisions of the California Government Code or the City's adopted investment policy, where more restrictive, that address interest rate risk, credit risk, and concentration of credit risk.

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

Authorized Investment Type	Maximum Maturity	Maximum Percentages of Portfolio	Maximum Investment in One Issuer
City or City Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years	100%	None
State of California Obligations	5 years	20%	None
California Local Agency Bonds	5 years	20%	None
U.S. Agency Obligations	5 years	100%	35%*
Bankers' Acceptance	180 days	20%*	5%*
Commercial Papers	270 days	25%	5%*
Negotiable Certificates of Deposit	5 years	30%	5%*
Time Certificates of Deposit	5 years	30%*	5%*
Repurchase Agreements	90 days*	100%	None
Medium Term Notes	5 years	25%*	5%*
Money Market Mutual Funds	N/A	20%	20%*
Asset-Backed and Mortgage-Back Securities	5 years	10%*	5%*
Supranational Securities	5 years	20%*	10%*
Local Agency Investment Fund (LAIF)	N/A	100%	\$65 million per account

* Represents where the City's investment policy is more restrictive than the California Government Code:

- U.S. Agency Obligations – The California Government Code has no restriction on this type of investment.
- Bankers' Acceptance – The California Government Code allows a city to invest up to 40% of its portfolio and up to 30% in a single issuer.
- Commercial Paper – The California Government Code allows a city to invest up to 10% of its portfolio in a single issuer.
- Negotiable CDs – The California Government Code allows a city to invest up to 30% of its portfolio and does not have an investment limitation in a single issuer.
- Time Certificates of Deposit – The California Government Code does not have an investment limitation in maximum percentage of portfolio and single issuer.
- Repurchase Agreements – The California Government Code allows a city to invest in repurchase agreements with a maximum maturity of 92 days.
- Medium Term Notes – The California Government Code allows a city to invest up to 30% of its portfolio and up to 30% in a single issuer.
- Money Market Mutual Funds – The California Government Code does not have an investment limitation in a single issuer.
- Asset-Backed and Mortgage-Back Securities - The California Government Code allows a city to invest up to 20% of its portfolio and does not have an investment limitation in a single issuer.
- Supranational Securities - The California Government Code allows a city to invest up to 30% of its portfolio and does not have an investment limitation in a single issuer.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Utility Authority's investment policy. The table below identifies the general investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentages of Portfolio</u>	<u>Maximum Investment In One Investor</u>
U.S. Treasury Obligations	None	None	None
Federal Housing Administration Debentures	None	None	None
U.S. Agency Securities	None	None	None
Unsecured Certificates of Deposit, Time Deposits and Bankers' Acceptance	30 days	None	None
FDIC Insured Bank Deposits	None	None	None
Commercial Papers	270 days	None	None
Money Market Mutual Funds	N/A	None	None
State Obligations	None	None	None
Pre-funded Municipal Obligations	None	None	None
Repurchase Agreements	90 days	None	None
Investment Agreements	None	None	None
Local Agency Investment Fund (LAIF)	None	None	\$50 million per account

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. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Utility Authority's investment to market interest rate fluctuations is provided by the following table that shows the distribution of the Utility Authority's investments by maturity:

<u>Investment Types</u>	<u>Remaining Maturity Less Than 1 Year</u>
Money Market Mutual Funds	\$ 39,120
LAIF	1,583
Total	<u>\$ 40,703</u>

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 the California

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

Government Code or the City's investment policy, and the actual rating as of year end by Standard & Poor's for each investment type.

<u>Investment Types</u>	<u>Amount</u>	<u>Maturity</u>	<u>Rating</u>
Held by Fiscal Agent:			
Money Market Mutual Funds	\$ 39,120	Less than 1 year	AAA
LAIF	1,583	Less than 1 year	Not Rated
Total	<u>\$ 40,703</u>		

Concentration of Credit Risk

The investment policies of the City and the Utility Authority contains certain limitations as disclosed in the accompanying table on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's and Utility Authority's investment policies do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Utility Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Fair Value Measurements

The Utility Authority categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The Utility Authority's investment in the City investment pool, LAIF, and money market mutual funds are not subject to the fair value hierarchy.

(3) Loan to City of La Habra

On November 1, 2015, Utility Authority entered into a promissory note with the City in the amount of \$2,000,000, at a simple interest rate of 1.5%, for assistance in funding the construction of a new civic center. Outstanding principal and all accrued interest shall be paid on November 1, 2020. At

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

June 30, 2020, the outstanding balance of the note was \$750,000.

(4) Capital Assets

The following table summarizes the changes in capital assets for the year ended June 30, 2019:

	<u>Balance at June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2020</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 2,617,743	\$ 1,610,611	\$ 537,359	\$ 3,690,995
Total capital assets not being depreciated	<u>2,617,743</u>	<u>1,610,611</u>	<u>537,359</u>	<u>3,690,995</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 1,307,683	\$ 21,081	\$ -	\$ 1,328,764
Equipment and vehicles	230,465	-	-	230,465
Infrastructure	<u>54,408,507</u>	<u>537,359</u>	<u>-</u>	<u>54,945,866</u>
Total capital assets being depreciated	<u>55,946,655</u>	<u>558,440</u>	<u>-</u>	<u>56,505,095</u>
Less accumulated depreciation for:				
Machinery and equipment	917,030	118,615	-	1,035,645
Equipment and vehicles	230,465	-	-	230,465
Infrastructure	<u>17,482,862</u>	<u>1,309,712</u>	<u>-</u>	<u>18,792,574</u>
Total accumulated depreciation	<u>18,630,357</u>	<u>1,428,327</u>	<u>-</u>	<u>20,058,684</u>
Total capital assets being depreciated, net	<u>\$ 37,316,298</u>	<u>\$ (869,887)</u>	<u>\$ -</u>	<u>\$ 36,446,411</u>
Business-type activities capital assets, net	<u>\$ 39,934,041</u>	<u>\$ 740,724</u>	<u>\$ 537,359</u>	<u>\$ 40,137,406</u>

For the year ended June 30, 2020, depreciation expense was charged as follows:

Water fund	\$ 1,219,639
Sewer fund	<u>208,688</u>
Total depreciation expense	<u>\$ 1,428,327</u>

(5) Water Rights Stock

The Utility Authority currently imports approximately 65% of its water from two major suppliers: California Domestic Water Company (Cal Domestic) and the Metropolitan Water District (MWD). Since October 2008, the Utility Authority has been purchasing shares of water rights stock from Cal Domestic to secure the purchase of water at a discounted rate known as an “entitlement” rate each year from the Main San Gabriel Basin. The Utility Authority owns two classes of stock: Capital Stock and Class A Preferred Stock. Currently, a share of Capital Stock represents the right to purchase approximately 1.45 acre feet (AF) of water and a share of Class A Preferred Stock

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

represents the right to purchase 0.76 AF of water. At June 30, 2020, the Utility Authority owned 2,455.25 shares of Capital Stock and 912.85 shares of Class A Preferred Stock. The Utility Authority has valued its investment in water rights stock at approximately \$17.7 million, which represents cost and does not intend to sell its interest in Cal Domestic.

(6) Long-Term Liabilities

Long-term liabilities consist of the following at June 30, 2020:

	<u>Balance at June 30, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2020</u>	<u>Due within One Year</u>
Direct borrowings and direct placements:					
Capital leases	\$ 5,659,293	\$ -	\$ 571,792	\$ 5,087,501	\$ 606,100
Other debts:					
Compensated absences	195,692	109,056	94,470	210,278	63,083
2010 Water Revenue Bonds, Series A & B	17,260,000	-	17,260,000	-	-
2013 Water Revenue Bonds, Series A	17,920,000	-	505,000	17,415,000	525,000
2019 Water Revenue Bonds, Series A & B	-	13,795,000	-	13,795,000	350,000
Unamortized premium	1,070,137	2,594,969	310,605	3,354,501	-
Total	<u>\$ 42,105,122</u>	<u>\$ 16,499,025</u>	<u>\$ 18,741,867</u>	<u>\$ 39,862,280</u>	<u>\$ 1,544,183</u>

Capital Leases

On July 1, 2007, the Utility Authority entered into two fifty-five (55) year lease agreements with the City to use the City's water and sewer enterprise activities, including related capital assets. At the inception of the lease agreements, the capital assets related to the water and sewer enterprise activities had estimated remaining useful lives of 20 years. The City and the Utility Authority agreed that portions of the leases equal to the net book value of the water and sewer capital assets at lease inception are considered capital leases and will be amortized over 20 years, the estimated remaining useful lives of the water and sewer capital assets as of June 30, 2007. Under the terms of the leases, the Utility Authority is required to pay a specified amount on an annual basis, which shall be increased annually (but not decreased) by the consumer price index for the Los Angeles, Riverside, and Orange County metropolitan statistical area, as reported by the U.S. Bureau of Labor Statistics. Total payments for capital leases for the year ended June 30, 2020, were \$1,668,137, of which \$1,096,345 was reported as interest expense.

The present value of future minimum lease payments for the capital portions of the leases at June 30, 2020, is as follows:

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

<u>Year Ending June 30,</u>	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
2021	\$ 1,124,953	\$ 609,924	\$ 1,734,877
2022	1,124,953	609,924	1,734,877
2023	1,124,953	609,924	1,734,877
2024	1,124,953	609,924	1,734,877
2025	1,124,953	609,924	1,734,877
2026-2027	<u>2,249,906</u>	<u>1,219,848</u>	<u>3,469,754</u>
Total minimum lease payments	7,874,671	4,269,468	12,144,139
Less amount representing interest	<u>(4,604,795)</u>	<u>(2,451,843)</u>	<u>(7,056,638)</u>
Present value of future minimum lease payments	<u>\$ 3,269,876</u>	<u>\$ 1,817,625</u>	<u>\$ 5,087,501</u>

2013 Water Revenue Bonds, Series A

On October 22, 2013, the Utility Authority issued \$20,210,000 of Water Revenue Bonds, Series 2013A and used the proceeds to 1) pay off the outstanding balance of the line of credit of \$11,931,781, 2) refund the Series 2003 Bonds (except the 2003 Bonds maturing on November 1, 2013 in the amount of \$180,000) in the amount of \$5,895,000, 3) finance additional improvements to the water system and, 4) pay the costs of issuance in connection with the issuance and sale of the Series 2013 Bonds. The bonds mature in various annual amounts through November 2043 and are secured by a pledge of net income and revenues reported in the Water Enterprise Fund. Net revenue recognized during the year ended June 30, 2020 was \$4,867,824 against the total debt service payment of \$1,337,225. Principal is payable annually on each November 1, commencing November 1, 2014. Interest is payable semiannually on each May 1 and November 1, commencing May 1, 2014 with interest rates ranging from 2.00% to 5.00%. The outstanding balance at June 30, 2020 was \$17,415,000.

2019 Water Revenue Bonds, Series A and Series B

On November 5, 2019, the Utility Authority issued Water Revenue Bonds, Series A and B in an aggregate amount of \$13,795,000 for an advance refunding of the 2010 Water Revenue Bonds, Series A and B. The refunding was undertaken to reduce future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$732,288. This amount is being amortized over the life of the old debt which is the same as the refunding debt obligation. At June 30, 2020, the unamortized deferred amount on refunding was \$715,280. The transaction also resulted in an economic gain of \$3,456,556 and a reduction of \$6,455,553 in future debt payments. The bonds are secured by a pledge of net revenue reported in the Water Enterprise Fund. Net revenue recognized during the year ended June 30, 2020 was \$4,867,824 against the total debt service payment of \$953,490. Principal is payable annually on each November 1, commencing November 1, 2020. Interest is payable semiannually on each May 1 and November 1, commencing May 1, 2020 with interest rates ranging from 1.95% to 5.00%. The outstanding balance at June 30, 2020 was \$13,795,000.

Annual debt service payments for the 2013 Water Revenue Bonds and 2019 Water Revenue Bonds as of June 30, 2020, are as follows:

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

Fiscal Year Ending June 30	2013 Water Revenue Bonds		2019 Water Revenue Bonds	
	Principal	Interest	Principal	Interest
2021	525,000	811,525	350,000	579,323
2022	550,000	784,650	360,000	572,400
2023	580,000	756,400	365,000	565,240
2024	615,000	726,525	375,000	557,653
2025	645,000	695,025	380,000	549,535
2026-2030	3,725,000	2,950,450	2,120,000	2,550,328
2031-2035	4,195,000	2,049,356	3,080,000	1,960,750
2036-2040	3,295,000	1,212,547	5,515,000	940,600
2041-2044	3,285,000	324,766	1,250,000	31,250
Subtotal	17,415,000	10,311,244	13,795,000	8,307,078
Unamortized premium	841,912	(841,912)	2,512,589	(2,512,589)
Total	<u>\$ 18,256,912</u>	<u>\$ 9,469,332</u>	<u>\$ 16,307,589</u>	<u>\$ 5,794,489</u>

(7) Operating Lease and Deferred Rent

The portions of the fifty-five (55) year lease agreements with the City for the water and sewer enterprises that are not related to capital assets are reported as operating leases. Under the terms of the leases, the Utility Authority is required to pay a specified amount on an annual basis, which shall be increased annually (but not decreased) by the consumer price index for the Los Angeles, Riverside, and Orange County metropolitan statistical area, as reported by the U.S. Bureau of Labor Statistics.

Total operating lease payments for the year ended June 30, 2020, were \$974,195.

Future minimum lease payments for the operating portions of the leases, as of June 30, 2020, are as follows:

Year Ending June 30,	Water	Sewer	Total
2021	\$ 626,142	\$ 348,053	\$ 974,195
2022	626,142	348,053	974,195
2023	626,142	348,053	974,195
2024	626,142	348,053	974,195
205	626,142	348,053	974,195
2026-2030	3,130,710	1,740,265	4,870,975
2031-2035	3,130,710	1,740,265	4,870,975
2036-2040	3,130,710	1,740,265	4,870,975
2041-2045	3,130,710	1,740,265	4,870,975
2046-2050	3,130,710	1,740,265	4,870,975
2051-2055	3,130,710	1,740,265	4,870,975
2056-2060	3,130,710	1,740,265	4,870,975
2061-2062	1,252,284	696,106	1,948,390
Total minimum lease payments	<u>\$ 26,297,964</u>	<u>\$ 14,618,226</u>	<u>\$ 40,916,190</u>

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

The difference between amortizing the present value of the future minimum lease payments for the capital portion of the lease over the useful lives of the assets (20 years) and the term of the lease agreement (55 years) is reported as deferred rent and will be amortized beginning in fiscal year 2028 through the end of the operating lease term in fiscal year 2062. The deferred rent balance at June 30, 2020, was \$6,872,515.

(8) Pension Plan

(a) General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City’s Miscellaneous Plan (Plan), an agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. For the purpose on this Utility Authority report, the Plan is considered a cost-sharing multiple-employer defined benefit pension plan. Benefit provisions under the Plan are established by State statute and City’s resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at measurement period ended June 30, 2019, are summarized as follows:

	<u>Prior to 1/1/2012</u>	<u>Between 1/1/2012 and 12/31/2012</u>	<u>On or after 1/1/2013</u>
Hire date			
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.00%	7.00%	6.75%
Required employer contribution rates			
Normal cost rates	8.164%	8.164%	8.164%
Payment of unfunded liability	\$1,499,235	Included with the classic plan	

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law (PERL)

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

For the measurement period ended June 30, 2019, the contribution to the Plan was \$380,753.

(b) Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability of the Plan is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures.

The City's net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan's fiduciary net position.

As of June 30, 2020, the Utility Authority reported net pension liabilities of \$3,569,141 for its proportionate shares of the net pension liability of Miscellaneous Plan. The Utility Authority's net pension liability for its Plan is measured as the proportionate share of the net pension liability. The Utility Authority's proportion of the net pension liability was based on pension contribution made by the Utility Authority relative to pension contribution made by all participating employers.

The Utility Authority's proportionate share of the net pension liability for its Plan as of June 30, 2018 and 2019 was as follows:

Measurement Date	Proportionate Share of Net Pension Liability	
	Amount	%
Proportion - June 30, 2018	\$ 3,410,288	12.422%
Proportion - June 30, 2019	3,569,141	12.579%
Change - Increase (Decrease)	\$ 158,853	0.157%

For the year ended June 30, 2020, the Utility Authority recognized pension expenses of \$453,210.

At June 30, 2020, the Utility Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 475,317	\$ -
Differences between expected and actual experience	-	13,878
Changes in assumptions	-	20,272
Net difference between projected and actual earnings on pension plan investments	-	86,252
Total	\$ 475,317	\$ 120,402

The Utility Authority recognized \$475,317 as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

	Misc Plan
Year Ended June 30	Deferred Outflows/ (Inflows) of Resources
2021	\$ 14,766
2022	(123,011)
2023	(24,274)
2024	12,117
Total	\$ (120,402)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability - The June 30, 2018 valuation was rolled forward to determine the June 30, 2019 total pension liability using standard update procedures, based on the following actuarial methods and assumptions:

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

Actuarial Cost Method	Entry-Age Normal in accordance with the requirement of GASB 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Projected Salary Increase	Varies by entry age and service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter

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

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

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

The expected real rates of return by asset class are as followed:

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

<u>Asset Class (1)</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1- 10 (2)</u>	<u>Real Return Years 11+ (3)</u>
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

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

(2) An expected inflation of 2.0% used for this period.

(3) An expected inflation of 2.92% used for this period.

Discount Rate – The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Subsequent Events – There was no subsequent events that would materially affect the results presented in this disclosure.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Plan, calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

1% Lower	6.15%
Proportionate share of the net pension liability	\$ 5,717,689
Current Discount Rate	7.15%
Proportionate share of the net pension liability	\$ 3,569,141
1% Higher	8.15%
Proportionate share of the net pension liability	\$ 1,810,846

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Notes to Financial Statements (Continued)
Year Ended June 30, 2020

(c) Payable to the Pension Plan

At June 30, 2020, the Utility Authority had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

(9) Related Party Transactions

For the fiscal year ended June 30, 2020, and in accordance with the management agreements between the City and the Utility Authority, the Utility Authority reimbursed the City \$3,420,686 for wages and benefits, including compensated absences, pension, and other postemployment benefits, for services provided by City employees for the activities of the Utility Authority.

REQUIRED SUPPLEMENTARY INFORMATION

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UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Cost Sharing Defined Benefit Pension Plans
Schedule of the Utility Authority's Proportionate Share of the Net Pension Liability
Last 10 Years ⁽¹⁾

Measurement Period	<u>FY 2018-19</u>	<u>FY 2017-18</u>	<u>FY 2016-17</u>	<u>FY 2015-16</u>	<u>FY 2014-15</u>	<u>FY 2013-14</u>
Proportion of the net pension liability	12.58%	12.42%	12.39%	11.92%	11.81%	11.67%
Proportionate share of the net pension liability	\$ 3,569,141	\$ 3,410,288	\$ 3,451,749	\$ 2,795,731	\$ 2,057,618	\$ 1,634,398
Covered payroll	\$ 1,720,897	\$ 1,738,766	\$ 1,794,148	\$ 1,603,447	\$ 1,449,167	\$ 1,455,451
Proportionate share of the net pension liability as percentage of covered payroll	207.40%	196.13%	192.39%	174.36%	141.99%	112.29%
Proportionate share of the Fiduciary net position as a percentage of the total pension liability	76.65%	76.37%	74.97%	76.48%	81.56%	84.57%

Notes to Schedule:

Benefit Changes:

The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions:

In 2019, there was no changes. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

(1) Additional years will be presented as they become available.

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Cost Sharing Defined Benefit Pension Plans
Schedule of Contribution
Last 10 Years ⁽¹⁾

	<u>FY 2019-20</u>	<u>FY 2018-19</u>	<u>FY 2017-18</u>	<u>FY 2016-17</u>	<u>FY 2015-16</u>
contribution	\$ 475,317	\$ 380,753	\$ 310,461	\$ 260,769	\$ 227,088
Contributions in relation to the actuarially determined contributions	<u>(475,317)</u>	<u>(380,753)</u>	<u>(310,461)</u>	<u>(260,769)</u>	<u>(227,088)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,763,750	\$ 1,720,897	\$ 1,738,766	\$ 1,794,148	\$ 1,603,447
Contributions as a percentage of covered payroll	26.95%	22.13%	17.86%	14.53%	14.16%

Notes to Schedule

Valuation date: 6/30/2017 6/30/2016 6/30/2015 6/30/2014 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method/period	(2)	(2)	(2)	(2)	(2)
Asset valuation method	Fair value method	Fair value method	Fair value method	Fair value method	Fair value method
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service	Varies by entry age and service
Payroll growth	3.00%	3.00%	3.00%	3.00%	3.00%
Investment rate of return	7.375%	7.375%	7.50%	7.50%	7.50%
Post-Retirement Mortality	(3)	(3)	(3)	(3)	(3)

(1) Additional years will be presented as they become available.

(2) Commencing with the June 30, 2013 valuation, all new gains or losses are tracked and amortized over a fixed 30-year period with a 5 year ramp up at the beginning and a 5 year ramp down at the end of the amortization period. All changes in liability due to plan amendments (other than golden handshakes) are amortized over a 20-year period with no ramp. Changes in actuarial assumptions, or changes in actuarial methodology are amortized over a 20-year period with a 5 year ramp up at the beginning and a 5 year ramp down at the end of the amortization period. Changes in unfunded accrued liability due to a Golden Handshake will be amortized over a period of 5 years.

(3) The post-retirement mortality rates include 20 years of projected on-going mortality improvement using Scale BB published by the Society of Actuaries.

SUPPLEMENTARY INFORMATION

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UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Combining Statement of Net Position
June 30, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets:			
Current assets:			
Equity in City's investment pool	\$ 8,064,384	\$ 1,811,038	\$ 9,875,422
Accounts receivable, net	2,223,798	334,231	2,558,029
Interest receivable	18,840	4,686	23,526
Due from other governments	-	-	-
Inventory	250,416	-	250,416
Total current assets	<u>10,557,438</u>	<u>2,149,955</u>	<u>12,707,393</u>
Noncurrent assets:			
Cash and investments with fiscal agents	40,703	-	40,703
Deferred charges	-	-	-
Water rights stock	17,713,917	-	17,713,917
Loan to City of La Habra	525,000	225,000	750,000
Capital assets:			
Not being depreciated	3,616,001	74,994	3,690,995
Being depreciated, net	31,793,636	4,652,775	36,446,411
Total noncurrent assets	<u>53,689,257</u>	<u>4,952,769</u>	<u>58,642,026</u>
Total assets	<u>64,246,695</u>	<u>7,102,724</u>	<u>71,349,419</u>
Deferred outflows of resources:			
Unamortized loss on refunding of debt	761,129	-	761,129
Deferred amount from pension plans	360,383	114,934	475,317
Total deferred outflows of resources	<u>1,121,512</u>	<u>114,934</u>	<u>1,236,446</u>
Liabilities:			
Current liabilities:			
Accounts payable	1,771,678	14,592	1,786,270
Accrued liabilities	60,390	19,950	80,340
Accrued interest	233,289	-	233,289
Deposits payable	269,388	-	269,388
Current portion of capital leases	389,557	216,543	606,100
Current portion of water revenue bonds	875,000	-	875,000
Current portion of compensated absences	43,336	19,747	63,083
Total current liabilities	<u>3,642,638</u>	<u>270,832</u>	<u>3,913,470</u>
Noncurrent liabilities:			
Capital leases, net of current portion	2,880,319	1,601,082	4,481,401
Water revenue bonds, net of current portion	33,689,501	-	33,689,501
Compensated absences, net of current portion	101,118	46,077	147,195
Net pension liability	2,586,355	982,786	3,569,141
Deferred rent	4,398,298	2,474,217	6,872,515
Total noncurrent liabilities	<u>43,655,591</u>	<u>5,104,162</u>	<u>48,759,753</u>
Total liabilities	<u>47,298,229</u>	<u>5,374,994</u>	<u>52,673,223</u>
Deferred inflows of resources:			
Deferred amount from pension plans	91,288	29,114	120,402
Total deferred inflows of resources	<u>91,288</u>	<u>29,114</u>	<u>120,402</u>
Net position:			
Net investment in capital assets	10,308,873	2,835,150	13,144,023
Unrestricted	7,669,817	(1,021,600)	6,648,217
Total net position	<u>\$ 17,978,690</u>	<u>\$ 1,813,550</u>	<u>\$ 19,792,240</u>

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues:			
Water sales	\$ 15,612,249	\$ -	\$ 15,612,249
Charges for services	162,921	2,346,847	2,509,768
Other	145,263	374	145,637
Total operating revenues	<u>15,920,433</u>	<u>2,347,221</u>	<u>18,267,654</u>
Operating expenses:			
Water and materials	4,517,216	-	4,517,216
Contractual services	1,050,653	127,298	1,177,951
Wages and fringe benefits	2,547,158	873,528	3,420,686
Equipment and maintenance	1,215,061	128,865	1,343,926
Materials and supplies	283,347	34,282	317,629
Utilities	434,962	-	434,962
Depreciation	1,219,639	208,688	1,428,327
Administration	1,796,884	705,881	2,502,765
Total operating expenses	<u>13,064,920</u>	<u>2,078,542</u>	<u>15,143,462</u>
Operating income (loss)	<u>2,855,513</u>	<u>268,679</u>	<u>3,124,192</u>
Nonoperating revenues (expenses):			
Investment income	187,446	34,013	221,459
Interest expense	(2,195,314)	(387,035)	(2,582,349)
Gain on sale of investments	134,037	32,965	167,002
Federal interest subsidy	172,346	-	172,346
Debt issuance costs	(254,610)	-	(254,610)
Transfer to (from) the City of La Habra	(71,250)	(16,250)	(87,500)
Total nonoperating revenues (expenses)	<u>(2,027,345)</u>	<u>(336,307)</u>	<u>(2,363,652)</u>
Income (loss) before transfers	828,168	(67,628)	760,540
Transfers in	79,598	-	79,598
Transfers out	-	(79,598)	(79,598)
Change in net position	907,766	(147,226)	760,540
Net position, beginning of year	<u>17,070,924</u>	<u>1,960,776</u>	<u>19,031,700</u>
Net position, end of year	<u>\$ 17,978,690</u>	<u>\$ 1,813,550</u>	<u>\$ 19,792,240</u>

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Combining Statement of Cash Flows
For the Year Ended June 30, 2020

	Water	Sewer	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 15,471,466	\$ 2,279,734	\$ 17,751,200
Payments to suppliers	(9,032,160)	(683,683)	(9,715,843)
Payments to City of La Habra for operating leases	(172,685)	(94,490)	(267,175)
Payments for employees' salaries and benefits	(2,177,771)	(751,510)	(2,929,281)
Net cash provided by operating activities	4,088,850	750,051	4,838,901
Cash flows from noncapital financing activities:			
Transfers from other fund	79,598	-	79,598
Transfers to other fund	-	(79,598)	(79,598)
Transfers to City of La Habra	(71,250)	(16,250)	(87,500)
Receipts of repayment from City of La Habra	254,562	109,098	363,660
Net cash provided by noncapital financing activities	262,910	13,250	276,160
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(3,114,695)	(209,688)	(3,324,383)
Principal payments on capital leases	(367,506)	(204,286)	(571,792)
Principal payments on bonds	(3,970,000)	-	(3,970,000)
Issuance costs paid on bonds	(254,610)	-	(254,610)
Interest paid on bonds and capital leases	3,694	(387,035)	(383,341)
Payment to escrow agent to refund capital debt	(732,287)	-	(732,287)
Federal interest subsidy received	172,346	-	172,346
Net cash used in capital and related financing activities	(8,263,058)	(801,009)	(9,064,067)
Cash flows from investing activities:			
Sales of investment	(1,406,463)	32,965	(1,373,498)
Investment income	176,154	29,501	205,655
Net cash provided by investing activities	(1,230,309)	62,466	(1,167,843)
Net increase (decrease) in cash and cash equivalents	(5,141,607)	24,758	(5,116,849)
Cash and cash equivalents, beginning of year	13,246,694	1,786,280	15,032,974
Cash and cash equivalents, end of year	\$ 8,105,087	\$ 1,811,038	\$ 9,916,125
Cash and cash equivalents:			
Cash and investments	\$ 8,064,384	\$ 1,811,038	\$ 9,875,422
Cash and investments with fiscal agents	40,703	-	40,703
Total cash and cash equivalents	\$ 8,105,087	\$ 1,811,038	\$ 9,916,125

(Continued)

UTILITY AUTHORITY OF THE CITY OF LA HABRA, CALIFORNIA
Combining Statement of Cash Flows (Continued)
For the Year Ended June 30, 2020

	Water	Sewer	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 2,855,513	\$ 268,679	\$ 3,124,192
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,219,639	208,688	1,428,327
Change in assets, deferred inflows of resources, liabilities, and deferred outflows of resources:			
(Increase) decrease in accounts receivables	(440,255)	(73,289)	(513,544)
(Increase) decrease in prepaid items	-	-	-
(Increase) decrease in inventory	(227,969)	-	(227,969)
(Increase) decrease in due from other governments	-	5,802	5,802
Increase (decrease) in accounts payable	21,697	(7,496)	14,201
Increase (decrease) in accrued liabilities	(86,643)	6,562	(80,081)
Increase (decrease) in deposits payable	(8,712)	-	(8,712)
Increase (decrease) in compensated absences	7,794	6,792	14,586
Increase (decrease) in deferred rent	403,240	225,649	628,889
Increase (decrease) in pension liability and related deferred inflows and outflows of resources	344,546	108,664	453,210
Total adjustments	1,233,337	481,372	1,714,709
Net cash provided by operating activities	\$ 4,088,850	\$ 750,051	\$ 4,838,901
Noncash Capital and Related Financing Transactions			
Amortization of unamortized loss on refunding of debt	\$ 18,973	-	\$ 18,973
Amortization of bond premium	(310,605)	-	(310,605)
Capital expenses funded by accounts payable	21,917	-	21,917



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Utility Authority of the City of La Habra
La Habra, 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 Utility Authority of the City of La Habra (the Utility Authority), a component unit of the City of La Habra (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Utility Authority's basic financial statements, and have issued our report thereon dated January 29, 2021.

Internal Control over Financial Reporting

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

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

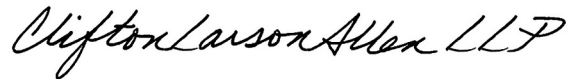
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

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 Utility Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Irvine, California
January 29, 2021