

ANNUAL FINANCIAL REPORT



Fiscal Year Ended June 30, 2020
Rancho Cucamonga, CA

2020

A regional, cost-effective approach to sustainable organics management.

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED
JUNE 30, 2020

Prepared by
Inland Empire Utilities Agency
Finance and Accounting Department

INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY

12645 Sixth Street
Rancho Cucamonga, CA 91739

P.O. Box 2470
Chino Hills, CA 91709

Telephone: 909.993.1500
FAX: 909.993.1510
www.ierca.org

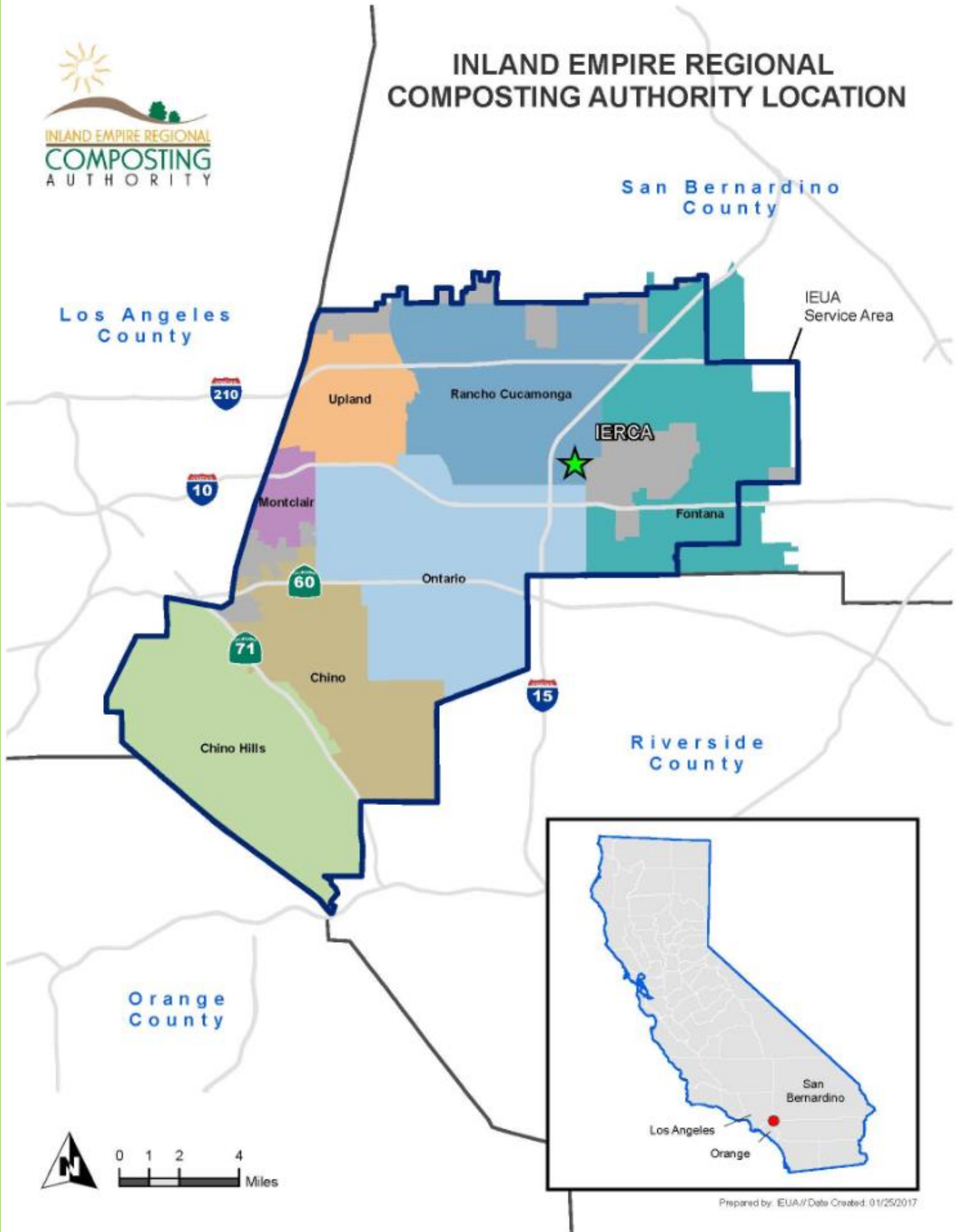
INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY
Annual Financial Report
For the Fiscal Year Ended June 30, 2020

TABLE OF CONTENTS

| <u>Introductory Section</u> | <u>Page</u> |
|--|--------------------|
| Letter of Transmittal | I |
| Authority Profile | I |
| Major Initiatives and Accomplishments | III |
| Financial Information | IV |
| Principal Officials | VII |
| Organizational Chart | VIII |
| | |
| <u>Financial Section</u> | |
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 4 |
| Basic Financial Statements | 9 |
| Statement of Net Position | 10 |
| Statement of Revenues, Expenses, and Changes in Net Position | 11 |
| Statement of Cash Flows | 12 |
| Notes to the Basic Financial Statements | 14 |



INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY LOCATION





12645 6th Street, Rancho Cucamonga, CA 91739
PO Box 2470 Chino Hills, CA 91709
Phone: (909) 993-1500 Fax: (909) 993-1510
www.ierca.org

Quality Products for Healthy Soil

February 01, 2021

To the Chairperson of the Inland Empire Regional Composting Authority Board, Members of the Board, and Joint Powers Authority members of the Inland Empire Regional Composting Authority.

The Annual Financial Report of the Inland Empire Regional Composting Authority (IERCA or the Authority) is hereby submitted for the Fiscal Year ended June 30, 2020. State and local ordinances and statutes require the Authority to annually publish a report of its financial condition and activities, audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

Accounting principles generally accepted in the United States of America requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Management Responsibility for Financial Information

The Finance and Accounting Department of Inland Empire Utilities Agency (IEUA) prepared this report. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the Authority's and IEUA's management. To the best of management's knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. Disclosures are presented to enable the reader to gain an understanding of the Authority's financial activities.

INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY PROFILE

Up to the Present

The IERCA was formed February 27, 2002 as a Joint Powers Authority (JPA) to divert organic solids from landfill disposal and to recycle organic products generated from within the community. IEUA and Los Angeles County Sanitation Districts (LACSD) entered into the JPA to implement the shared goal to develop a sustainable biosolids management project.

The Authority is governed by a six-member Board, comprised of two governing board members from each JPA member agency and their respective General Manager. The Executive Manager of Finance & Administration/Assistant General Manager of IEUA serves as the Treasurer of the Authority.

In March 2007, the two joint powers agencies completed construction of the Inland Empire Regional Composting Facility (IERCF). As the nation's largest indoor biosolids composting facility, it consists of 445,275 square feet. The IERCA focuses on producing top quality compost under the guidelines outlined in the US Composting Council's Seal of Testing Assurance (STA) program.

INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY PROFILE (continued):

Up to the Present (continued):

Operations at the facility began in April 2007, it reached full capacity in December 2008. At full capacity, the IERCF receives and processes over 200,000 wet tons of biosolids and wood waste from local communities and produces approximately 232,000 cubic yards (81,000 tons) of high-quality compost each year.

The facility is staffed by twenty-five full-time IEUA employees, and one part time employee from LACSD. The employees are onsite Monday through Friday, and conduct all operational activities including production, maintenance, safety and industrial hygiene training, sales and administration.



The IERCA produces compost using the aerated static pile (ASP) composting method by mixing together organic material in large piles instead of in traditional windrows. Aeration occurs as air is pushed or pulled through the ASP. IERCF pulls air directly from the piles and sends the air to a biofilter along with air exchange through the composting building. The biofilter is 50,000 cubic yards of a special blend of wood chips that treats all of the air by removing odors and other regulated compounds before it is exhausted to the atmosphere.

IERCA Composting Facility

The entire composting process at the IERCF takes approximately 60 days. Active composting lasts approximately 22 days before the pile is moved into curing. The material is stabilized in curing for 30 to 38 days. After curing, the compost is screened and is then ready for distribution and use.

The composted product, which is marketed as SoilPro Premium Compost, has been sold as a soil conditioner which helps improve water retention resulting in better plant growth and water savings. Compost products are also proven to produce direct benefits to soils and crops in both horticulture (lawns and gardens) and agriculture (vegetables, fruits, nuts, and hay crops).

In order to produce recycled products year-round, the IERCA completed the compost storage facility in 2010 to allow compost storage during the winter season.

Additionally, the Authority entered into two separate agreements to host nearly 10,000 solar panels located on the roof of the facility which provides up to 2.5 megawatts of renewable energy. The system is paired with a shared battery storage system located at IEUA's Regional Water Recycling Plant No. 4. The entire system can provide all the energy required during peak operating hours.



MAJOR INITIATIVES and ACCOMPLISHMENTS

During the fiscal year ended June 30, 2020, the IERCF surpassed 2.8 million cubic yards of compost produced and sold from the facility. There are over 100 active customers who purchase SoilPro products for a variety of applications each year.

There were no changes to the tiered pricing system as the market has remained stable. Tiered pricing offers incentives to customers who purchase large volumes of compost in exchange for pricing discounts. The tiered compost pricing structure is shown in Table 1.

Table 1:

| Tier | Cubic Yards (CYDs)/Month | Premium (Cubic Yard) |
|-------------|---------------------------------|-----------------------------|
| 1 | <499 | \$5.00 |
| 2 | 500-999 | \$4.00 |
| 3 | ≥1,000 | \$3.50 |

Major Initiatives for FY 2020/2021

In fiscal year 2020/2021, an energy metering system will be evaluated for installation to assist in improved energy tracking and conservation opportunities. Sales staff are reviewing opportunities to increase revenue from compost sales through the development of specialty products.

Major Accomplishments for FY 2019/2020

- Completed a facility beautification project painting all buildings and resurfacing the asphalt.
- Kicked off wash pad cover project to improve maintenance safety and efficiency.
- Recognized by two organizations for excellence in engineering.
- Maintained perfect environmental compliance.
- Met all budgeted targets.



IERCA Main Office

FINANCIAL INFORMATION

Internal Controls

The Management of the Authority is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Authority are protected from loss, theft or misuse, and to compile sufficient reliable information for the preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America.

The internal control structure is designed to provide reasonable rather than absolute assurance the financial statements will be free from material misstatement and that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not outweigh the benefits likely to be derived; and the valuation of costs and benefits requires estimates and judgments by management.

As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

Budgetary Controls

The Authority maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annually appropriated budget approved by the Authority's Board of Directors. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is set at the category level (i.e., Capital and Operating) within the Authority. The Authority maintains an encumbrance accounting system as an additional method of maintaining budgetary control. Encumbered amounts lapse at year-end. However, outstanding encumbrances are generally re-appropriated as part of the following fiscal year's budget following Board approval.

Independent Audit

State statutes require an annual audit by independent certified public accountants. The Authority's Board of Directors appointed the firm of Lance, Soll & Lunghard, LLP to perform the annual audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for the fiscal year ended June 30, 2020 are free of any material misstatement. As part of the independent audit, reviews on a test basis were made to determine the adequacy of internal controls, and to ensure compliance with applicable laws and regulations related to all financial activities conducted by the Authority. Generally accepted auditing standards, issued by the Controller General of the United States of America, were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements is included in the financial section of this report.

The independent audit concluded, based upon the audit, that there was reasonable basis for rendering an unmodified opinion that the Inland Empire Regional Composting Authority's financial statements for the year ended June 30, 2020 are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

FINANCIAL INFORMATION (continued):

Cash and Investment Management

The Authority has a comprehensive cash and investment program subject to California Government Code Sections 53601, 53607, 53635, 53638, 53646, 53652, and 53653. These regulations are incorporated into the Authority's (Investment Policy), which identifies the types of investments that are authorized and indicates any restrictions.

Consistent with Government Code Section 53646, the Authority annually adopts the Investment Policy that requires the IERCA to invest funds in a manner which will provide: (i) the maximum security; (ii) the funds necessary to meet the daily cash flow demands of the Authority; and (iii) the highest investment return while conforming to all statutes governing the investment of Authority funds within the constraints of the investment policy. By adoption of the policy, it is the intent of the Authority to minimize credit and market risks, while maintaining a competitive yield on its overall portfolio.

The Authority's cash management system is also designed to forecast revenues and expenses, and to invest idle funds to the fullest extent possible. During the Fiscal Year ended June 30, 2020, idle funds were invested in accordance with this policy. These investments consisted primarily of deposits in a pooled investment fund administered by the Los Angeles County Investment Officer.

In order of priority, the Authority's objectives when investing, reinvesting, purchasing, acquiring, selling, enhancing and managing public funds are as follows:

1. **Safety:** *Safety of principal is the foremost objective of the investment program. Investments made by the Authority shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent any potential loss on any individual security or depository from exceeding the income generated from the remainder of the portfolio.*

2. **Liquidity:** *The investment portfolio will remain sufficiently liquid to enable the Authority to meet all operating requirements that might be reasonably anticipated.*

3. **Return on Investments:** *The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to safety and liquidity objectives described above. The core investment is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:*

- A. *A security with declining credit may be sold to minimize loss of principal.*
- B. *A security swap that would improve quality, yield, or target duration in the portfolio.*
- C. *Liquidity needs of the portfolio that require the security to be sold.*

February 01, 2021
To the Chairperson and Members of
The Board of The Inland Empire Regional Composting Authority

FINANCIAL INFORMATION (continued):

Cash and Investment Management (continued):

All cash and investment transactions are conducted in accordance with the Authority's resolutions and Investment Policy. While management recognizes that investment risks may result from issuer defaults, market price changes or various technical complications leading to temporary liquidity, portfolio diversification is employed as a way to minimize these risks.

Acknowledgements

We acknowledge the thorough and professional manner in which the external auditors, Lance, Soll & Lunghard, LLP, conducted the audit. Additionally, we would like to acknowledge the staffs from the member agencies of the Authority for their cooperation and contribution in providing the necessary information to complete this report.

Respectfully submitted,

Christina Valencia

Christina Valencia, Treasurer

INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY

Principal Officials

June 30, 2020

BOARD OF DIRECTORS

Jon Blickenstaff, *Chairperson*
Michael Camacho, *Vice-Chairperson*
Shivaji Deshmukh, *Director*
Robert Ferrant, *Director*
Margaret Finlay, *Director*
Paul Hofer, *Director*

OFFICERS OF THE AUTHORITY

Jeffrey Ziegenbein, *Project Manager*
Ann Heil, *Assistant Project Manager*
Christina Valencia, *Treasurer*

LEGAL COUNSEL

JC Law Firm
Jean Cihigoyenetche, APC
Chino Hills, California

Inland Empire Regional Composting Authority

Organizational Chart

June 30, 2020

Board Members

Los Angeles County Sanitation Districts
and
Inland Empire Utilities Agency

PROJECT MANAGER
Jeffrey Ziegenbein
(IEUA)

***ASSISTANT
PROJECT MANAGER***
Ann Heil
(LACSD)

SECRETARY
IERCA Board Secretary
April Woodruff

TREASURER
Christina Valencia

**International Compost
Awareness Week
May 2 - 8, 2021**



**Grow, Eat...
COMPOST...Repeat**



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Inland Empire Regional Composting Authority
Rancho Cucamonga, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Inland Empire Regional Composting Authority, (the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inland Empire Regional Composting Authority, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.





To the Board of Directors
Inland Empire Regional Composting Authority
Rancho Cucamonga, California

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Prior Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2019, from which such partial information was derived.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Authority'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 Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lance, Solt & Loughard, LLP". The signature is written in a cursive, flowing style.

Brea, California
January 19, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The intent of the management's discussion and analysis is to provide highlights of the Authority's financial activities for the fiscal year ended June 30, 2020. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

The Authority's Operations – an Overview

As a Joint Powers Authority, the Inland Empire Regional Composting Authority (IERCA or the Authority) owns a composting facility on approximately 22 acres of land in Rancho Cucamonga. The property is ideally situated in an industrial area adjacent to Regional Water Recycling Plant No. 4 (RP-4), a wastewater recycling treatment plant owned and operated by Inland Empire Utilities Agency (IEUA). The proximity of the facility to RP-4 provides opportunities to optimize staffing options and energy usage.



Living wall at IERCA headquarters

The 445,275-square foot composting facility is a fully enclosed biosolids processing plant that processed approximately 147,606 tons of biosolids and 42,068 tons of wood and green waste into 232,294 cubic yards (81,103 tons) of high-quality compost during the fiscal year.

The facility utilizes aerated static pile composting technology to process a mixture of biosolids, greenwaste and woodwaste to generate Class 'A' Exceptional Quality compost for use in local agriculture and horticulture markets. All of the facility's emissions are treated with a biofilter to meet air quality requirements. In FY 2019/2020, a total of 189,674 tons of feedstock, equal to 91% permitted capacity, was received by the facility.

As of June 30, 2020, the IERCA had sold 2.78 million cubic yards of high-quality compost to various customers in Southern California, Arizona, and Nevada and processed nearly 2.45 million tons of recycled materials.

For comparison, 2.78 million cubic yards can:

- ☀ Fill the Roman Colosseum to the top 1.6 times
- ☀ Load 54,000 semi-trucks
- ☀ Increase soil health and water retention for 89,089 football fields

The Authority's Operations – an Overview (continued):

Throughout the last twelfth years of operation, the Inland Empire Regional Composting Facility (IERCF) has operated continuously in full compliance with applicable permits, rules and regulations, and has maintained an excellent safety record.

In the 2019/2020 fiscal year, IERCF projects improved compost quality, production efficiency and worker safety. Major projects include:

- Facility beautification project – Repainted the compost facility and support buildings and resurfaced the site asphalt.
- Initiated wash pad cover project to improve safety and working conditions on the pad.
- Trommel Screen Replacement project completion– commission of a new trommel screen to increase uptime and minimize preventive and corrective maintenance.

Future Goals

The project team will continue to focus on compost market expansion by working with local jurisdictions including IEUA member agencies to help them meet state required procurement targets by purchasing and using compost.

The project team also intends to increase the revenue generated from compost sales by expanding the volume of higher-valued specialty products including SoilPro bagged compost.

Basic Financial Statements

The basic financial statements present a summary of the Authority's financial position as of June 30, 2020. The Authority uses full accrual accounting, which recognizes transactions when they occur, regardless of when cash is exchanged.

The Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ended June 30, 2020 reflects the twelfth year of operations for the IERCF. Total operating revenues were \$8,944,580, a 0.6% decrease from prior year of \$8,993,911, while total operating expenses increased to \$11,767,085, or a 7.4% increase compared to prior year total of \$10,957,101. The expenses included \$3,117,407 of depreciation and amortization expense on capitalized assets.

FINANCIAL HIGHLIGHTS

| | FY2019/20 | FY2018/19 | Increase (Decrease) from FY2018/19 | |
|---|---------------------|---------------------|---|---------------|
| Current assets | \$5,237,844 | \$5,854,444 | (616,600) | -10.53% |
| Capital & Intangible assets | 79,342,860 | 81,277,808 | (1,934,948) | -2.38% |
| Total Assets | 84,580,704 | 87,132,252 | (2,551,548) | -2.93% |
| Current liabilities | 2,114,856 | 1,936,760 | 178,096 | 9.20% |
| Total Liabilities | 2,114,856 | 1,936,760 | 178,096 | 9.20% |
| Net investment in capital assets | 79,342,860 | 81,277,808 | (1,934,948) | -2.38% |
| Unrestricted | 3,122,989 | 3,917,684 | (794,695) | -20.28% |
| Total net position | \$82,465,849 | \$85,195,492 | (\$2,729,643) | -3.20% |
| Operating revenues | \$8,944,580 | \$8,993,911 | (49,331) | -0.55% |
| Operating expenses | (11,767,085) | (10,957,101) | (809,984) | 7.39% |
| Net operating income (loss) | (2,822,505) | (1,963,190) | (859,315) | 43.77% |
| Other Non-operating revenues | 178,799 | 108,494 | 70,305 | 64.80% |
| Other Non-operating expenses | (85,937) | (20,879) | (65,058) | 311.60% |
| Net nonoperating revenues (expenses) | 92,862 | 87,615 | 5,247 | 5.99% |
| Net income (loss) before capital contributions | (2,729,643) | (1,875,575) | (854,068) | 45.54% |
| Total change in net position | (2,729,643) | (1,875,575) | (854,068) | 45.54% |
| Total net position-beginning | 85,195,492 | 87,071,067 | (1,875,575) | -2.15% |
| Total net position- ending | \$82,465,849 | \$85,195,492 | (\$2,729,643) | -3.20% |

Changes in Financial Conditions of the Authority

- The net decrease of \$616,600 in current assets includes a decrease of \$424,068 in cash and investments, a decrease of \$279,167 in customer receivables, a decrease of \$8.981 in accrued interest receivable, and an increase of \$95,616 in inventory.

FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Authority (continued):

- The decrease in Capital and Intangible assets of \$1,934,948 is primarily due to an increase of \$3,117,407 in accumulated depreciation and amortization, partially offset by an increase of \$311,410 in Jobs in Progress and capital assets of \$871,049.
- The decrease of \$49,331 in operating revenues is primarily due to a decrease of \$197,529 in biosolids recycling tipping fee revenue, partially offset by an increase of \$148,198 in compost sales.
- The \$809,984 increase in operating expenses is mainly due to an increase of \$285,562 in contractual services, an increase of \$142,068 in insurance premium paid for commercial property, an increase of \$243,088 in professional services, an increase of \$42,838 in bio filter media, an increase of \$36,137 in equipment purchase and rental, and an increase of \$37,822 in electricity usage.

Depreciation is the expiration of the service life of capital assets attributable to wear and tear, deterioration, and obsolescence. Depreciation expense is the cost of a capital asset prorated over the service life of the asset and each period is charged with a portion of the cost.

Amortization is the gradual reduction, redemption, or liquidation of intangible capital assets over the service life of the asset. Amortization expense is the cost of a capital intangible asset prorated over the service life of the asset and each period is charged with a portion of the cost. IERCF currently has two intangible assets, emission reduction credits and software licenses.

The contributed capital from LACSD and IEUA was \$83,364,402 equally split between the partners. Additionally, the JPA partners contributed a total of \$15,116,229 for the original property, which resulted in a total contribution of \$98,480,631. In FY 2019/2020, each JPA member was charged \$56 per ton tipping fee for bio-solids deliveries. Orange County Sanitation Districts also delivered 7,163 tons of biosolids at a fee of \$58 per ton. The total net position at June 30, 2020 was \$82,465,849 compared to \$85,195,492 in FY 2018/2019.

Capital & Intangible Assets

On June 30, 2020, the Authority had total capital and intangible assets of \$79,342,860, net of depreciation and amortization. Jobs in progress of \$2,366,834 include the cost of all design and construction work, and rehabilitation and replacement (R & R) need to maintain and improve the facility. Please refer to Note #3 to the basic financial statements for additional information regarding capital asset balances.

FINANCIAL HIGHLIGHTS (continued):

Investment Summary

The Authority's investment portfolio is administered by the IEUA staff. The investment strategy continues to take a conservative approach consistent with the Authority's approved Investment Policy.

Interest earnings for FY 2019/2020 totaled \$62,576, for an average yield of 0.862%. The Authority's short-term investment fund balance for the fiscal year ended June 30, 2020 was \$4,196,103 comprised of \$1,246,212 in Sweep Investment Fund with Citizens Business Bank, \$274,199 in the Los Angeles County Pooled Surplus Investing Fund (LAC PSIF) and \$2,101,178 in the Local Agency Investment Agency Fund (LAIF). Please see Note #2 of the basic financial statements for additional information regarding investment balances.

Contacting the Authority's Financial Management

This financial report is prepared to provide the Authority's members, our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues it receives. If you have questions about this report or need additional financial information, please contact the Inland Empire Utilities Agency, Finance and Accounting Department, P.O. Box 9020, Chino Hills, California, 91709.

**INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY
BASIC FINANCIAL STATEMENTS
OVERVIEW**

Financial Statements

The following Basic Financial Statements, along with the Supplementary Notes to the Basic Financial Statements, present a summary of the Authority's financial position at June 30, 2020, and the results of operations and the cash flows of its proprietary fund type for the fiscal year then ended.

The Basic Financial Statements consist of:

- 1) Statement of Net Position – the statement denotes the increase/(decrease) of net position of the Authority.
- 2) Statement of Revenues, Expenses and Changes in Net Position – the statement shows all revenue and expense sources recorded for the period, and their effects on the net position of the Authority.
- 3) Statement of Cash Flows – the statement reflects the Authority's financial activities and their effect on cash. It also denotes the cash position of the Authority at the end of the fiscal period.
- 4) Notes to the Basic Financial Statements.

Inland Empire Regional Composting Authority
Statement of Net Position
June 30, 2020
(With Comparative Totals for June 30, 2019)

| | Totals | |
|--|----------------------|----------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current assets | | |
| Cash & Investments (Note 2) | \$ 4,196,103 | \$ 4,620,171 |
| Accounts receivable | 823,985 | 1,103,152 |
| Interest receivable | 8,016 | 16,998 |
| Other receivables | 939 | 939 |
| Inventory | 208,801 | 113,184 |
| Total current assets | <u>5,237,844</u> | <u>5,854,444</u> |
| Noncurrent assets | | |
| Land | 4,285,096 | 4,285,096 |
| Jobs in progress | 2,366,834 | 2,055,425 |
| Capital assets, net of accumulated depreciation | 71,869,301 | 74,091,037 |
| Intangible assets, net of accumulated amortization | 821,629 | 846,250 |
| Total capital assets | <u>79,342,860</u> | <u>81,277,808</u> |
| Total noncurrent assets | <u>79,342,860</u> | <u>81,277,808</u> |
| Total assets | <u>84,580,704</u> | <u>87,132,252</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 2,042,794 | 1,877,684 |
| Accrued liabilities other | 4,109 | 681 |
| Retentions payable | 67,953 | 58,395 |
| Total current liabilities | <u>2,114,856</u> | <u>1,936,760</u> |
| Total liabilities | <u>2,114,856</u> | <u>1,936,760</u> |
| NET POSITION | | |
| Net investment in capital assets | 79,342,860 | 81,277,808 |
| Unrestricted | 3,122,989 | 3,917,684 |
| Total net position | <u>\$ 82,465,849</u> | <u>\$ 85,195,492</u> |

The accompanying notes are an integral part of the basic financial statements

Inland Empire Regional Composting Authority
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020
(With Comparative Totals for June 30, 2019)

| | Totals | |
|--|----------------------|----------------------|
| | 2020 | 2019 |
| Operating revenues | | |
| Biosolids Recycling Tipping Fees | \$ 8,345,998 | \$ 8,543,527 |
| Sale of compost | 598,582 | 450,384 |
| | <u>8,944,580</u> | <u>8,993,911</u> |
| Operating expenses | | |
| Operations and maintenance | 7,742,128 | 6,975,035 |
| Administration and general | 907,550 | 888,890 |
| Depreciation and amortization | 3,117,407 | 3,093,176 |
| | <u>11,767,085</u> | <u>10,957,101</u> |
| Total operating expenses | <u>11,767,085</u> | <u>10,957,101</u> |
| Operating income (loss) | <u>(2,822,505)</u> | <u>(1,963,190)</u> |
| Nonoperating revenues (expenses) | | |
| Interest income | 121,553 | 104,525 |
| Other nonoperating revenues | 57,246 | 3,969 |
| Other nonoperating expenses | (85,937) | (20,879) |
| | <u>92,862</u> | <u>87,615</u> |
| Net nonoperating revenues (expenses) | <u>92,862</u> | <u>87,615</u> |
| Income (loss) before capital contributions | <u>(2,729,643)</u> | <u>(1,875,575)</u> |
| Change in net position | (2,729,643) | (1,875,575) |
| Total net position - beginning | <u>85,195,492</u> | <u>87,071,067</u> |
| Total net position - ending | <u>\$ 82,465,849</u> | <u>\$ 85,195,492</u> |

The accompanying notes are an integral part of the basic financial statements

Inland Empire Regional Composting Authority
Statement of Cash Flows
Year Ended June 30, 2020
(With Comparative Totals for June 30, 2019)

| | Totals | |
|--|--------------------|--------------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$9,128,130 | \$8,595,054 |
| Cash payments to suppliers for goods and services | (4,275,752) | (3,747,788) |
| Cash payments for contract labor | (4,205,388) | (3,990,820) |
| | <u>646,990</u> | <u>856,446</u> |
| Net cash provided (used) by operating activities | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Contract reimbursement from other (Other Non Op Rev) | 57,246 | 3,969 |
| Cash paid to others (Other Non Op Exp) | (85,937) | (20,879) |
| | <u>(28,691)</u> | <u>(16,910)</u> |
| Net cash provided by (used for) noncapital financing activities | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (1,182,459) | (2,166,878) |
| Changes in contractor deposits/retentions | 9,557 | 58,394 |
| | <u>(1,172,902)</u> | <u>(2,108,484)</u> |
| Net cash provided (used) by capital and related financing activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest on investments | 130,535 | 91,020 |
| | <u>130,535</u> | <u>91,020</u> |
| Net cash provided (used) by investing activities | | |
| Net increase (decrease) in cash and cash equivalents | (424,068) | (1,177,927) |
| Cash and cash equivalents - beginning | 4,620,171 | 5,798,098 |
| Cash and cash equivalents - ending | <u>\$4,196,103</u> | <u>\$4,620,171</u> |

The accompanying notes are an integral part of the basic financial statements

Inland Empire Regional Composting Authority
Statement of Cash Flows
Year Ended June 30, 2020
(With Comparative Totals for June 30, 2019)

| | Totals | |
|--|--------------------|--------------------|
| | 2020 | 2019 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FOR (USED BY) OPERATING ACTIVITIES | | |
| Operating income (loss) | (\$2,822,505) | (\$1,963,190) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | |
| Depreciation and amortization | 3,117,407 | 3,093,176 |
| (Increase) decrease in operating assets | | |
| Accounts receivable | 279,167 | (290,772) |
| Other receivable | 0 | (804) |
| Inventory | (95,617) | (107,281) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | 165,110 | 125,738 |
| Other accrued liabilities | 3,428 | (421) |
| | <u>\$646,990</u> | <u>\$856,446</u> |
| Net cash provided (used) by operating activities | | |
| RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION | | |
| Cash | \$574,514 | \$545,664 |
| Short-term investments | 3,621,589 | 4,074,507 |
| Total cash, short-term investments, and restricted cash | <u>\$4,196,103</u> | <u>\$4,620,171</u> |

The accompanying notes are an integral part of the basic financial statements

INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY

Index of Notes to the Basic Financial Statements

JUNE 30, 2020

| | | |
|---------------|---|-----------|
| <i>Note 1</i> | <i>Reporting Entity and Summary of Significant Accounting Policies.....</i> | <i>15</i> |
| <i>Note 2</i> | <i>Cash and Investments</i> | <i>19</i> |
| <i>Note 3</i> | <i>Changes in Capital Assets.....</i> | <i>22</i> |
| <i>Note 4</i> | <i>Subsequent Event</i> | <i>23</i> |

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

(1) Reporting Entity and Summary of Significant Accounting Policies:

Description of the Reporting Entity

The Inland Empire Regional Composting Authority, a Joint Powers Authority (JPA), was formed in February of 2002. The JPA consists of two partners, Inland Empire Utilities Agency (IEUA), a municipal water district in California, and Los Angeles County Sanitation Districts (LACSD), a special district organized and operating pursuant to the County Sanitation District Act, Health and Safety Code Section 4700, et seq. All capital contribution investments related to the JPA are shared equally by both partners. Beginning FY 2009/2010 the Authority implemented a cost of service rate (tipping fees) to support the operational costs. Tipping fees paid by each JPA partner are based on the tonnage of biosolids shipped to the facility for recycling. As defined by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the Authority as the primary government. The Authority has no legally separate component units that require blended or discrete presentation.

Subject to the limitations imposed by the Constitution of California, and pursuant to its charter, all powers of the Authority not defined are vested in a six-member Board of Directors. For the purposes of transacting business of the Board, a quorum shall consist of four of the six members of the Board, provided that there is a minimum of two Board members from each partner. The principal office of the Authority is established by resolution of the Board. The Authority has appointed a Secretary, a Treasurer and a Project Manager. The appointed officers come from the membership of the Authority.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as they relate to governmental units. The Authority applies all relevant GASB pronouncements.

Fund Accounting

The accounts of the Authority are organized on the basis of funds. All transactions are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses, as appropriate, the Authority's accounts for its activities in an "Enterprise Fund". An Enterprise Fund is grouped and presented in the financial statements as a "Proprietary Fund Type".

Proprietary Fund Types

A Proprietary Fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the statement of net position. Their reported fund equity (net position) is segregated into capital assets (net of related debt) and restricted and unrestricted net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

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

Proprietary Fund Types (continued):

Enterprise Funds

An Enterprise Fund is used to account for operations: (a) 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, including depreciation and amortization) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Basis of Accounting

Basis of accounting refers to the timing when revenues and expenses are recognized in the accounts, and reported in the financial statements, regardless of the measurement focus applied. The Authority prepares its financial statements on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred regardless of when the related cash flows take place.

Use of Estimates

The preparation of financial statements requires management to make certain 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, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating and Non-Operating Revenues and Expenses

Operating revenues relate to revenue transactions generated as a direct result of the core business in which the Authority is engaged. These transactions can be repetitive in nature within the normal business cycle. Examples include biosolids recycling, compost delivery services, compost sales and the sale of renewable energy credits. Non-operating revenues are transactions incurred infrequently, during the course of the Authority's business. These types of transaction are generally not directly related to the general business of the Authority, such as 1) interest earnings; 2) gain on sales of assets; and 3) miscellaneous other revenues.

The Authority classifies expense types based upon the goods and/or services directly related to the operations of the Authority. Typically, operating expenses include such items as operations, maintenance, and administrative costs. In contrast, non-operating expenses are not directly related to the Authority's core operations, such as interest expense and the cost of financial services.

Budgetary Policy and Control

The Authority's Board approves each year's budget submitted by the Treasurer prior to the beginning of the new fiscal year. The Authority is not required to present budget comparisons; therefore budgetary data is not presented in the accompanying financial statements.

The Authority maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the Board. All appropriations which are not obligated, encumbered, or expended at the end of the fiscal year lapse at year-end, except for multi-year capital appropriations. Any encumbrance and commitments needed to support ongoing projects or activities are carried forward to the following fiscal year following Board approval.

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

Cash and Investments

Investments in short-term highly liquid debt instruments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Investments are carried at fair value.

For financial presentation purposes, cash and cash equivalents are shown within cash and short-term investments.

Receivables and Payables

All receivables are shown net of an allowance for uncollectible accounts. The Authority extends credit to customers in the normal course of operations. Management has evaluated the accounts and approved an allowance for uncollectible accounts of \$22,119 for the fiscal year ended at June 30, 2020. When an account is determined to be uncollectible, it is written off against the allowance following Board approval.

Capital Assets

Property, plant and equipment are stated at cost. The cost of a capital investment includes purchase, rehabilitation or construction costs, Authority labor for engineering, construction management and administrative activities, as well as ancillary expenses necessary to make productive use of the assets. Current capitalization thresholds are reflected in the following table:

| Type of Expenditure | Total Cost | Estimated Life | Increases Estimated Life | Enhances Performance |
|------------------------------|-------------------|-----------------------|---------------------------------|-----------------------------|
| Office Equipment | ≥ \$5,000 | > 1 Year | N/A | N/A |
| Computer Equipment | ≥ \$1,000 | > 1 Year | N/A | N/A |
| Other Equipment | ≥ \$5,000 | > 1 Year | N/A | N/A |
| Single Year Capital Projects | ≥ \$5,000 | ≥ 3 Years | N/A | N/A |
| Multi Year Capital Projects | ≥ \$15,000 | ≥ 3 Years | N/A | N/A |




The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized.

Improvements are capitalized and depreciated, as applicable, over the remaining useful life of the related capital assets. Donated capital assets are recorded at acquisition value.

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

Capital Assets (continued):

Depreciation and amortization of capital assets has been provided on a straight-line basis. One-half year depreciation and amortization are recorded in the year of acquisition and disposal.

| | | |
|-----------------------------|--|--------------|
| Estimated useful lives are: | Ω Furniture, machinery and equipment | 3 - 15 years |
| |  Improvements | 15 years |
| |  Buildings and plants | 5 - 50 years |
| |  Intangible Assets | 3 - 50 years |

Comparative Data

The basic financial statements include certain prior years summarized comparative information in total but not at the level of detail required for a presentation in accordance with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2019 from which the summarized data was derived.

Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority secures liability, boiler and machinery insurance to protect itself from any risk exposure, relative to its business operations. Since the Authority has no employees and the operations and management of its facility is contracted out to IEUA, worker's compensation insurance is carried by IEUA.

- ⊕ General and auto liability: The Authority retains the risk of loss for general liability, and errors and omissions claim of up to \$5,000,000 per person per occurrence coverage, subject to a \$10,000 deductible per occurrence.
- ⊕ IERCF is included in the Districts' excess liability policy which increases the coverage stated above to \$25M in total

In addition to the above, the Authority has the following insurance coverage:

w

- ⊕ Property damage has an \$75,000,000 per occurrence coverage limit, subject to a \$100,000 deductible per occurrence.

Settled claims from the risks discussed herein have not exceeded commercial insurance coverage in any of the last three fiscal years ending June 30, 2020, 2019, and 2018.

(2) Cash and Investments

Cash Deposits

The Authority's cash accounts are maintained with financial institutions that provide deposit protection for the account balance through participation in the Federal Deposit Insurance Corporation (FDIC). The California Government Code (CGC§53652 and 53667) requires banks and savings and loan associations to secure local agency deposits by placing appropriate and adequate securities as collateral with an approved trustee.

For deposits in commercial banks, the California Government Code allows the Authority to waive the preceding requirement for that portion of each deposit insured pursuant to the FDIC regulations; with the remainder of the deposit being secured by collateral (U. S. Government Securities) with a market value of at least ten percent (10%) greater than that remaining amount. The Authority has chosen to enter into these agreements.

In addition, the Authority investment policy requires financial institutions to meet other minimum criteria. Financial institutions must: (a) have been in business for at least three years; have total assets in excess of ten (\$10) billion dollars; and a core capital/asset ratio of five percent (5%) or better; or, (b) have total assets in excess of five hundred million dollars (\$500,000,000); and a core capital/asset ratio of six percent (6%) or better. State statutes and the Authority's investment policy authorize the Authority to maintain cash deposits in demand accounts, savings accounts, and in certificates of deposit.

The custodial credit 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 Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than as required for the California Government Code for deposits.

The investment in the Repurchase Agreement is uninsured with the collateral for the repurchase agreement held in the name of Citizens Business Bank but not in the name of the Authority.

The bank balance reflects the amount credited by a financial institution to the Authority's account as opposed to the Authority's own ledger balance for the account. The carrying value reflects the ledger balance, which includes checks written by the Authority that have not cleared the bank as of June 30, 2020.

Investments

In FY 2019/2020, the Authority invested in the Los Angeles County Pooled Surplus Investment Fund (LAC PSIF), which is also managed by Los Angeles County Investment Officer. The Authority invests in the Local Agency Investment Fund (LAIF), which is an investment pool managed by the Treasurer of the State of California. The Authority's investments are reported at amortized cost in the balance sheet. The market value of the Authority's investments constitutes one hundred percent (100%) of investments and equals the net realizable value of the Authority's share of LAIF and LAC PSIF. LAIF and LAC PSIF are authorized by California statutes to enter into investments on behalf of municipalities within California.

State statutes and the Authority's investment policy also allows the Authority to invest (short-term and long-term) in U.S. Treasury Obligations, U.S. agency issues and instrumentalities, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Records, negotiable certificate of deposit, LAIF and medium-term notes.

(2) Cash and Investments (continued):

Cash and Investments

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

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|---------------------------|---------------------------|
| Statement of Net Position: | | |
| Cash & Investments | <u>\$4,196,103</u> | <u>\$4,620,171</u> |
| Total Cash and Investments | <u>\$4,196,103</u> | <u>\$4,620,171</u> |

Investments Authorized by the California Governmental Code and the Authority's Investment Policy

The table below identifies the investment types that are authorized for the Authority by the Authority's investment policy. The table also identifies certain provisions of the Authority's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

| <u>Authorized Investment Type³</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment One Issuer</u> |
|---|-----------------------------|--|--|
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| State Treasury Obligations | 5 years | 10% | None |
| Local Agency Obligations | 5 years | None | None |
| Commercial Paper | 270 days | 20% | 10% |
| Negotiable/Placement Certificates of Deposits | 5 years | 30% | None |
| Repurchase Agreements | 90 days | 40% | None |
| Medium-Term Notes | 5 years | 30% | None |
| Money Market Funds | N/A | 20% | 10% |
| Local Agency Investment Fund | N/A | \$75M | None |
| Local Agency Investment Pools | N/A | None | None |
| Bank Deposits | N/A | None | None |

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.

(2) Cash and Investments (continued):

Disclosures Relating to Interest Rate Risk (continued):

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

| <u>Investment Type</u> | <u>Remaining Maturity (In Months)</u> | |
|--|---|----------------------------|
| | <u>Fair Value</u> | <u>12 or Less</u> |
| Los Angeles County Investment Pooled Investment Fund | \$ 274,199 | \$ 274,199 |
| Repurchase Agreement | 1,246,212 | 1,246,212 |
| Local Agency Investment Fund | <u>2,101,178</u> | <u>2,101,178</u> |
| Total | <u>\$ 3,621,589</u> | <u>\$ 3,621,589</u> |

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 the Authority's investment policy, and the actual Standard and Poor's rating as of fiscal year ended June 30, 2020 for each investment type:

| <u>Investment Type</u> | <u>Value</u> | <u>Minimum</u> | |
|--|----------------------------|---------------------|----------------------------|
| | | <u>Legal Rating</u> | <u>Unrated</u> |
| Los Angeles County Investment Pooled Investment Fund | \$ 274,199 | N/A | \$ 274,199 |
| Repurchase Agreement | 1,246,212 | N/A | 1,246,212 |
| Local Agency Investment Fund | <u>2,101,178</u> | N/A | <u>2,101,178</u> |
| Total | <u>\$ 3,621,589</u> | | <u>\$ 3,621,589</u> |

Fair Value Measurement (GASB 72)

The information below shows the Authority's investments fair value measurements (market approach) as of June 30, 2020. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date under current market conditions.

| <u>Investments by Fair Value Level</u> | <u>June 30, 2020</u> | <u>Level 1 ^(A)</u> | <u>Level 2 ^(B)</u> | <u>Uncategorized</u> |
|--|----------------------------|-------------------------------|-------------------------------|----------------------------|
| Los Angeles County Investment Pooled Investment Fund | \$ 274,199 | | \$ 274,199 | |
| Repurchase Agreement | 1,246,212 | | 1,246,212 | |
| Local Agency Investment Fund | <u>2,101,178</u> | | | <u>2,101,178</u> |
| Total | <u>\$ 3,621,589</u> | <u>\$ -</u> | <u>\$ 1,520,411</u> | <u>\$ 2,101,178</u> |

^(A) Level 1 - Quoted prices in active markets for identical assets

^(B) Level 2 - Quoted prices in active markets for significant other observable inputs

(3) Changes in Capital Assets

The following is a summary of capital assets, jobs in progress and intangible assets at June 30, 2020:

| Capital assets | Balance at 6/30/2019 | Additions | Transfers, Sales & Retirements | Balance at 6/30/2020 |
|--|---------------------------------|----------------------|---|---------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$4,285,096 | \$0 | \$0 | \$4,285,096 |
| Jobs in progress | 2,055,425 | 1,182,459 | (871,049) | 2,366,835 |
| Total capital assets, not being depreciated | \$6,340,521 | \$1,182,459 | (\$871,049) | \$6,651,931 |
| Capital assets, being depreciated: | | | | |
| Facility | 10,831,133 | 0 | 0 | 10,831,133 |
| Structures & improvements | 72,110,700 | 486,938 | 0 | 72,597,638 |
| Operations equipment | 17,946,890 | 384,111 | 0 | 18,331,001 |
| Total capital assets, being depreciated | \$100,888,723 | \$871,049 | \$0 | \$101,759,772 |
| Less accumulated depreciation for: | | | | |
| Facility | (2,491,162) | (216,623) | 0 | (2,707,785) |
| Structures & improvements | (16,210,666) | (1,484,285) | 0 | (17,694,950) |
| Operations equipment | (8,095,859) | (1,391,878) | | (9,487,737) |
| Total accumulated depreciation | (\$26,797,686) | (\$3,092,786) | \$0 | (\$29,890,472) |
| Total capital assets, being depreciated, net | \$74,091,037 | (\$2,221,737) | \$0 | \$71,869,300 |
| Intangible assets, being amortized: | | | | |
| Capacity rights | 1,037,088 | 0 | 0 | 1,037,088 |
| Total intangible assets, being amortized | \$1,037,088 | \$0 | \$0 | \$1,037,088 |
| Less accumulated amortization for: | | | | |
| Capacity rights | (190,838) | (24,621) | 0 | (215,459) |
| Total accumulated amortization | (\$190,838) | (\$24,621) | \$0 | (\$215,459) |
| Total capital assets, being amortized, net | \$846,250 | (\$24,621) | \$0 | \$821,629 |
| Total capital assets, net | \$81,277,808 | (\$1,063,899) | (\$871,049) | \$79,342,860 |

In FY 2019/20, the Authority added \$1,182,459 assets as Job in Progress, transferred \$871,049 to capital assets being depreciated, and increased Accumulated Depreciation and Amortization by \$3,117,407. The ending balance of Accumulated Depreciation and Amortization for all capital assets has been adjusted for rounding to the Statement of Net Position for FY 2019/2020.

(3) Changes in Capital Assets (continued):

Jobs in Progress

As of fiscal Year-end June 30, 2020, the Authority had seven capital modification and improvement projects and sub-projects in progress.

| | | |
|--|-----------|------------------|
| IERCF Trommel Screen Improvements | \$ | 1,447,551 |
| IERCF Building Improvements | | 332,173 |
| RCA Capital Replacement | | 193,596 |
| RCA Exterior Paint | | 153,750 |
| IERCF Belt Conveyor Improvements | | 137,166 |
| IERCF Pug Mill Improvements | | 52,075 |
| IERCF Transition Air Duct Improvements | | 45,576 |
| Glulam Repair Project - Roof Repair | | 3,636 |
| RCA Compost Storage Conveyor Project | | 1,311 |
| Total Jobs in Progress | \$ | 2,366,835 |

(4) Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through February 1, 2021, the date financial statements were available to be issued, and found no subsequent event.



IERCF Team SoilPro



Damaged Glulam Repair Project

INLAND EMPIRE UTILITIES AGENCY

6075 Kimball Avenue
Chino, CA 91708

P.O. Box 9020
Chino Hills, CA 91709

tel 909.993.1600
fax 909.993.1986

www.ieua.org

LOS ANGELES COUNTY SANITATION DISTRICTS

1955 Workman Mill Road
Whittier, CA 90601

P.O. Box 4998
Whittier, CA 90607

tel 562.699.7411
fax 562.699.5422

www.lacsd.org



INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY



12645 Sixth Street
Rancho Cucamonga, CA 91739

P.O. Box 2470
Chino Hills, CA 91709

tel 909.993.1500
fax 909.993.1510

2020

www.ierca.org