



# Annual Financial Report



Rancho Cucamonga, CA

# 2020 2021

FISCAL YEAR ENDED JUNE 30, 2021

A regional, cost effective approach to sustainable organics management.

# Annual Financial Report

Fiscal Year Ended June 30, 2021

Inland Empire Regional Composting Authority

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Rancho Cucamonga, CA 91739

P.O. Box 2470  
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**INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2021**

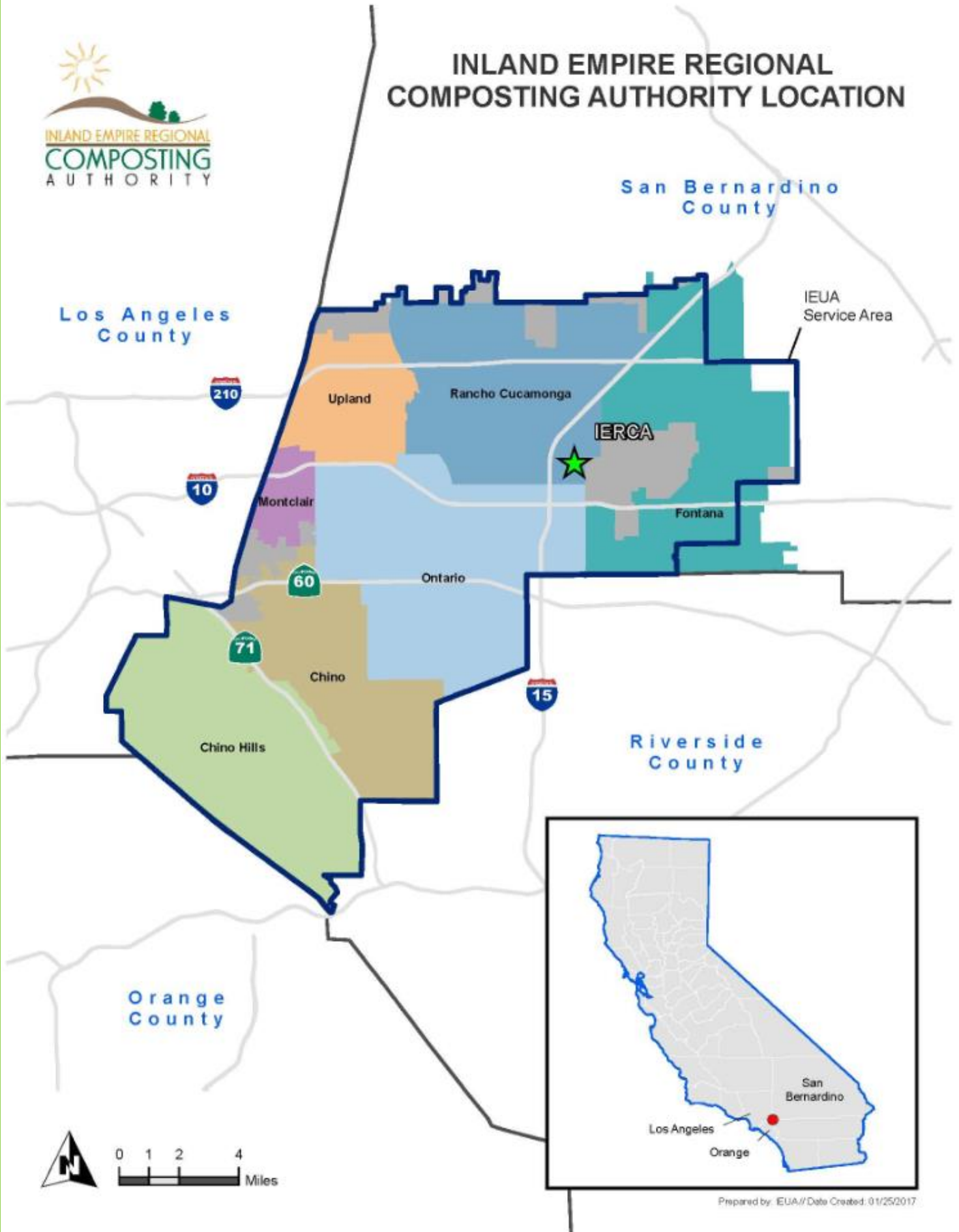
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# INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY LOCATION





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PO Box 2470 Chino Hills, CA 91709  
Phone: (909) 993-1500 Fax: (909) 993-1510  
[www.ierca.org](http://www.ierca.org)

*Quality Products for Healthy Soil*

February 7, 2022

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, 2021. 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.



**IERCA Composting Facility**

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.

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, 2021, the IERCF surpassed 3 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:

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

### **Major Initiatives for FY 2021/2022**

In fiscal year 2021/2022, staff will initiate a wheel loader replacement project and secure two, new loaders. Staff identified loaders that are specifically designed for the waste industry with sealed cabs, corrosion resistance, and improved fuel efficiency.

### **Major Accomplishments for FY 2020/2021**

- Completed the installation of an energy metering system to improve energy tracking and conservation.
- Completed wash pad cover project and commissioned the structure for daily use.
- Passed two years with no recordable or lost time safety incidents.
- Successfully completed a biofilter source test verifying compliance with the facility's air permits.
- 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 CliftonLarsonAllen 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, 2021 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, 2021 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, 2021, 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 7, 2022  
To the Chairperson and Members of  
The Board of The Inland Empire Regional Composting Authority

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**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, CliftonLarsonAllen 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,

DocuSigned by:  
  
45090B39BA7E479...

Javier Chagoyen-Lazaro, Treasurer

Jan 13, 2021 at 6:08:50 AM  
12645 Sixth St  
Rancho Cucamonga CA 91739  
United States



Cover with Automatic Lighting  
and Utilities to Protect Workers  
from the Weather

# ***INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY***

## ***Principal Officials***

***June 30, 2021***

### **BOARD OF DIRECTORS**

Jon Blickenstaff, *Chairperson*

Paul Hofer, *Vice-Chairperson*

Shivaji Deshmukh, *Director*

Robert Ferrant, *Director*

Margaret Finlay, *Director*

Jasmin A. Hall, *Director*

### **OFFICERS OF THE AUTHORITY**

Jeffrey Ziegenbein, *Project Manager*

Mike Sullivan, *Assistant Project Manager*

Javier Chagoyen-Lazaro, *Treasurer*

### **LEGAL COUNSEL**

JC Law Firm

Jean Cihigoyenette, APC

Chino Hills, California

# ***Inland Empire Regional Composting Authority***

## Organizational Chart

June 30, 2021

### ***Board Members***

Los Angeles County Sanitation Districts  
and  
Inland Empire Utilities Agency

***PROJECT MANAGER***  
Jeffrey Ziegenbein  
(IEUA)

***ASSISTANT  
PROJECT MANAGER***  
Mike Sullivan  
(LACSD)

***SECRETARY***  
IERCA Board Secretary  
Denise Garzaro

***TREASURER***  
Javier Chagoyen-Lazaro

# Recipe for Regeneration: **COMPOST**



**International Compost Awareness Week  
May 1 - 7, 2022**



## INDEPENDENT AUDITORS' REPORT

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 (Authority) as of and for the year ended June 30, 2021, 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.

### **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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position the Authority as of June 30, 2021, and its changes in financial position and its cash flows thereof 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 4 to the financial statements, the Authority made a restatement to its previously reported net position. 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 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, 2020, from which such partial information was derived.

#### *Other Information*

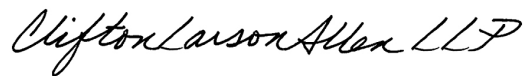
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 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 it.



Board of Directors  
Inland Empire Regional Composting Authority

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 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 cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Irvine, California  
December 21, 2021



## Damaged Glulam Repair Project

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## 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, 2021. 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 150,217 tons of biosolids and 41,121 tons of wood and greenwaste into 218,235 cubic yards (76,390 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 the facility's emissions are treated with a biofilter to meet air quality requirements. In FY 2020/2021, a total of 191,338 tons of feedstock, equal to 92% permitted capacity, was received by the facility.

As of June 30, 2021, the IERCA had sold approximately 3 million cubic yards of high-quality compost to various customers in Southern California, Arizona, and Nevada and processed nearly 2.63 million tons of recycled materials.

For comparison, 3 million cubic yards of compost can:

- ☀ Fill the Roman Colosseum to the top 1 3/4 times
- ☀ Load 55,000 semi-trucks
- ☀ Increase soil health and water retention for 95,000 football fields

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

Throughout the last fourteen 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 2020/2021 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.
- Completed the wash pad cover project to improve safety and working conditions on the pad and commissioned the structure
- Initiated a wheel loader upgrade project to procure more efficient and safe loaders for production.

### **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, 2021. 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, 2021 reflects the thirteenth year of operations for the IERCF. Total operating revenues were \$9,216,839, a 3% increase from prior year of \$8,944,580, while total operating expenses increased to \$12,019,814, or a 2% increase compared to prior year total of \$11,767,084. The expenses included \$3,158,370 of depreciation and amortization expense on capitalized assets.

## **FINANCIAL HIGHLIGHTS**

|   | <b>FY2020/21</b>    | <b>FY2019/20</b>    | <b>Increase (Decrease)<br/>from FY2019/20</b> |                 |
|---|---------------------|---------------------|---|-----------------|
| Current assets  | \$4,866,839         | \$5,237,845         | (371,006)                                     | -7.08%          |
| Capital & Intangible assets                               | 76,981,959          | 79,342,861          | (2,360,902)                                   | -2.98%          |
| <b>Total Assets</b>                                       | <b>81,848,798</b>   | <b>84,580,706</b>   | <b>(2,731,908)</b>                            | <b>-3.23%</b>   |
| Current liabilities                                       | 1,488,134           | 2,114,857           | (626,723)                                     | -29.63%         |
| <b>Total Liabilities</b>                                  | <b>1,488,134</b>    | <b>2,114,857</b>    | <b>(626,723)</b>                              | <b>-29.63%</b>  |
| Net investment in capital assets                          | 76,971,474          | 79,342,860          | (2,371,386)                                   | -2.99%          |
| Unrestricted  | 3,389,189           | 3,122,989           | 266,200                                       | 8.52%           |
| <b>Total net position</b>                                 | <b>\$80,360,663</b> | <b>\$82,465,849</b> | <b>(\$2,105,186)</b>                          | <b>-2.55%</b>   |
| Operating revenues  | \$9,216,839         | \$8,944,580         | 272,259                                       | 3.04%           |
| Operating expenses  | (12,019,814)        | (11,767,085)        | (252,729)                                     | 2.15%           |
| <b>Net operating income (loss)</b>                        | <b>(2,802,975)</b>  | <b>(2,822,505)</b>  | <b>19,530</b>                                 | <b>-0.69%</b>   |
| Other Non-operating revenues                              | 4,112               | 178,799             | (174,687)                                     | -97.70%         |
| Other Non-operating expenses                              | (6,323)             | (85,937)            | 79,614  | -92.64%         |
| <b>Net nonoperating revenues (expenses)</b>               | <b>(2,211)</b>      | <b>92,862</b>       | <b>(95,073)</b>                               | <b>-102.38%</b> |
| <b>Net income (loss) before<br/>capital contributions</b> | <b>(2,805,186)</b>  | <b>(2,729,643)</b>  | <b>(75,543)</b>                               | <b>2.77%</b>    |
| Contributed Capital                                       | 500,000             | 0                   | 500,000                                       | 0.00%           |
| Prior period adjustment                                   | 200,000             | 0                   | 200,000                                       | 0.00%           |
| <b>Total change in net position</b>                       | <b>(2,105,186)</b>  | <b>(2,729,643)</b>  | <b>624,457</b>                                | <b>-22.88%</b>  |
| <b>Total net position-beginning</b>                       | <b>82,465,849</b>   | <b>85,195,492</b>   | <b>(2,729,643)</b>                            | <b>-3.20%</b>   |
| <b>Total net position- ending</b>                         | <b>\$80,360,663</b> | <b>\$82,465,849</b> | <b>(\$2,105,186)</b>                          | <b>-2.55%</b>   |

### **Changes in Financial Conditions of the Authority**

- The net decrease of \$371,006 in Current Assets is mainly due to a decrease of \$1,061,714 in Cash and Investments, an increase of \$657,641 in Customer Receivables, a decrease of \$7,036 in Accrued Interest Receivable, and an increase of \$41,043 in Inventory.

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## **FINANCIAL HIGHLIGHTS (continued):**

### **Changes in Financial Conditions of the Authority (continued):**

- The decrease in Capital and Intangible assets of \$2,360,902 is primarily due to an increase of \$3,158,369 in Accumulated Depreciation and Amortization, partially offset by a decrease of \$1,851,638 in Jobs in Progress and an increase of \$2,649,105 in Capital Assets.
- The increase of \$272,259 in Operating Revenues is primarily due to an increase of \$279,409 in Biosolids Recycling Tipping Fee Revenue, partially offset by a decrease of \$7,150 in Compost Sales.
- The \$252,729 increase in Operating Expenses is mainly due to a decrease of \$267,287 in Contractual Services, an increase of \$215,545 in Insurance Premium paid for commercial property, an increase of \$207,154 in Operations & Maintenance Supplies, an increase of \$94,103 in Bio Filter Media.

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 accumulated contributed capital from LACSD and IEUA was \$83,864,402 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 \$98,980,631. In FY 2020/2021, each JPA member was charged \$57 per ton tipping fee for bio-solids deliveries. Orange County Sanitation Districts also delivered 9,501 tons of biosolids at a fee of \$59 per ton. The total net position at June 30, 2021 was \$80,360,663 compared to \$82,465,849 in FY 2019/2020.

### **Capital & Intangible Assets**

On June 30, 2021, the Authority had total capital and intangible assets of \$76,981,959, net of depreciation and amortization. Jobs in progress of \$515,197 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.

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**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.

The net interest earnings for FY 2020/2021 totaled \$421, for an average yield of 0.184%. The Authority's short-term investment fund balance for the fiscal year ended June 30, 2021 was \$3,134,389 comprised of \$1,250,834 in Sweep Investment Fund with Citizens Business Bank, \$274,722 in the Los Angeles County Pooled Surplus Investing Fund (LAC PSIF) and \$1,005,157 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, 2021, 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, 2021**  
**(With Comparative Totals for June 30, 2020)**

|  | Totals               |                      |
|--|----------------------|----------------------|
|  | 2021                 | 2020                 |
| <b>ASSETS</b>                                      |                      |                      |
| Current assets                                     |                      |                      |
| Cash & Investments (Note 2)                        | \$ 3,134,389         | \$ 4,196,103         |
| Accounts receivable                                | 1,481,626            | 823,985              |
| Interest receivable                                | 980                  | 8,016                |
| Other receivables                                  | -                    | 939                  |
| Inventory  | 249,844              | 208,801              |
| Total current assets                               | <u>4,866,839</u>     | <u>5,237,845</u>     |
| Noncurrent assets                                  |                      |                      |
| Land   | 4,285,096            | 4,285,096            |
| Jobs in progress                                   | 515,197              | 2,366,835            |
| Capital assets, net of accumulated depreciation    | 71,384,658           | 71,869,301           |
| Intangible assets, net of accumulated amortization | 797,008              | 821,629              |
| Total capital assets                               | <u>76,981,959</u>    | <u>79,342,861</u>    |
| Total noncurrent assets                            | <u>76,981,959</u>    | <u>79,342,861</u>    |
| Total assets                                       | <u>81,848,798</u>    | <u>84,580,706</u>    |
| <b>LIABILITIES</b>                                 |                      |                      |
| Current liabilities                                |                      |                      |
| Accounts payable                                   | 1,474,100            | 2,042,795            |
| Accrued liabilities other                          | 3,549                | 4,109                |
| Retentions payable                                 | 10,485               | 67,953               |
| Total current liabilities                          | <u>1,488,134</u>     | <u>2,114,857</u>     |
| Total liabilities                                  | <u>1,488,134</u>     | <u>2,114,857</u>     |
| <b>NET POSITION</b>                                |                      |                      |
| Net investment in capital assets                   | 76,971,474           | 79,342,861           |
| Unrestricted                                       | 3,389,189            | 3,122,989            |
| Total net position                                 | <u>\$ 80,360,663</u> | <u>\$ 82,465,849</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, 2021**  
**(With Comparative Totals for June 30, 2020)**

|  | Totals               |                      |
|--|----------------------|----------------------|
|  | 2021                 | 2020                 |
| <b>Operating revenues</b>                  |                      |                      |
| Biosolids Recycling Tipping Fees           | \$ 8,625,407         | \$ 8,345,998         |
| Sale of compost                            | 591,432              | 598,582              |
|  | <u>9,216,839</u>     | <u>8,944,580</u>     |
| <b>Operating expenses</b>                  |                      |                      |
| Operations and maintenance                 | 7,923,029            | 7,742,128            |
| Administration and general                 | 938,415              | 907,550              |
| Depreciation and amortization              | 3,158,370            | 3,117,407            |
|  | <u>12,019,814</u>    | <u>11,767,085</u>    |
| Total operating expenses                   | <u>12,019,814</u>    | <u>11,767,085</u>    |
| Operating income (loss)                    | <u>(2,802,975)</u>   | <u>(2,822,505)</u>   |
| <b>Nonoperating revenues (expenses)</b>    |                      |                      |
| Interest income                            | 421                  | 121,553              |
| Other nonoperating revenues                | 3,691                | 57,246               |
| Other nonoperating expenses                | (6,323)              | (85,937)             |
|  | <u>(2,211)</u>       | <u>92,862</u>        |
| Net nonoperating revenues (expenses)       | <u>(2,211)</u>       | <u>92,862</u>        |
| Income (loss) before capital contributions | <u>(2,805,186)</u>   | <u>(2,729,643)</u>   |
| Contributed Capital                        | <u>500,000</u>       | <u>-</u>             |
| Change in net position                     | (2,305,186)          | (2,729,643)          |
| Prior period Adjustment                    | 200,000              | -                    |
| Total net position - beginning             | <u>82,465,849</u>    | <u>85,195,492</u>    |
| Total net position - ending                | <u>\$ 80,360,663</u> | <u>\$ 82,465,849</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, 2021**  
**(With Comparative Totals for June 30, 2020)**

|  | Totals             |                    |
|--|--------------------|--------------------|
|  | 2021               | 2020               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |                    |                    |
| Cash received from customers   | \$8,519,097        | \$9,128,130        |
| Cash payments to suppliers for goods and services                    | (5,095,102)        | (4,275,751)        |
| Cash payments for contract labor                                     | (4,135,599)        | (4,205,388)        |
|  | <u>(711,604)</u>   | <u>646,991</u>     |
| Net cash provided (used) by operating activities                     |                    |                    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>               |                    |                    |
| Contract reimbursement from other (Other Non Op Rev)                 | 3,691              | 57,246             |
| Cash paid to others (Other Non Op Exp)                               | (6,323)            | (85,937)           |
|  | <u>(2,632)</u>     | <u>(28,691)</u>    |
| Net cash provided by (used for) noncapital financing activities      |                    |                    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>      |                    |                    |
| Acquisition and construction of capital assets                       | (797,468)          | (1,182,460)        |
| Changes in contractor deposits/retentions                            | (57,467)           | 9,557              |
|  | <u>(354,935)</u>   | <u>(1,172,903)</u> |
| Net cash provided (used) by capital and related financing activities |                    |                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          |                    |                    |
| Interest on investments  | 7,457              | 130,535            |
|  | <u>7,457</u>       | <u>130,535</u>     |
| Net cash provided (used) by investing activities                     |                    |                    |
| Net increase (decrease) in cash and cash equivalents                 | (1,061,714)        | (424,068)          |
| Cash and cash equivalents - beginning                                | 4,196,103          | 4,620,171          |
| Cash and cash equivalents - ending                                   | <u>\$3,134,389</u> | <u>\$4,196,103</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, 2021**  
**(With Comparative Totals for June 30, 2020)**

|  | Totals             |                    |
|--|--------------------|--------------------|
|  | 2021               | 2020               |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FOR (USED BY) OPERATING ACTIVITIES</b>    |                    |                    |
| Operating income (loss)  | (\$2,802,975)      | (\$2,822,504)      |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities |                    |                    |
| Depreciation and amortization  | 3,158,370          | 3,117,407          |
| (Increase) decrease in operating assets  |                    |                    |
| Accounts receivable  | (657,640)          | 279,168            |
| Other receivable   | 939                | 0                  |
| Inventory  | (41,043)           | (95,617)           |
| Increase (decrease) in operating liabilities   |                    |                    |
| Accounts payable   | (368,695)          | 165,110            |
| Other accrued liabilities  | (560)              | 3,428              |
|  | <u>(\$711,604)</u> | <u>\$646,991</u>   |
| Net cash provided (used) by operating activities   |                    |                    |
| <b>RECONCILIATION OF CASH &amp; CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>                |                    |                    |
| Cash   | \$1,854,510        | \$1,820,726        |
| Short-term investments   | <u>1,279,879</u>   | <u>2,375,377</u>   |
| Total cash, short-term investments, and restricted cash  | <u>\$3,134,389</u> | <u>\$4,196,103</u> |

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

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**INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY**

***Index of Notes to the Basic Financial Statements***

***JUNE 30, 2021***

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# **NOTES TO THE BASIC FINANCIAL STATEMENTS**

## **JUNE 30, 2021**

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### **(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 \$26,106 for the fiscal year ended at June 30, 2021. 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:

| <b>Type of Expenditure</b>   | <b>Total Cost</b> | <b>Estimated Life</b> | <b>Increases Estimated Life</b> | <b>Enhances Performance</b> |
|------------------------------|-------------------|-----------------------|---------------------------------|-----------------------------|
| 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        | ≥ 1 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, 2020 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.

- The Authority maintains insurance for commercial general liability, up to \$5,000,000 per occurrence, subject to a \$10,000 deductible per occurrence
- The Authority maintains auto liability insurance up to \$1,000,000 per accident, with zero deductible.
- IERCF is included in the Districts' excess liability policy which provides coverage from \$5M to \$20M.
- Insurance for 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, 2021, 2020, and 2019.

## **(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 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, 2021.

### **Investments**

In FY 2020/2021, 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.

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.

## **(2) Cash and Investments (continued):**

### **Cash and Investments**

Cash and investments as of June 30, 2021 are classified in the accompanying financial statements as follows:

|                                   | <u>2021</u>               | <u>2020</u>               |
|-----------------------------------|---------------------------|---------------------------|
| Statement of Net Position:        |                           |                           |
| Cash & Investments                | <u>\$3,134,389</u>        | <u>\$4,196,103</u>        |
| <b>Total Cash and Investments</b> | <b><u>\$3,134,389</u></b> | <b><u>\$4,196,103</u></b> |

### **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.

| <b><u>Authorized<br/>Investment Type<sup>3</sup></u></b> | <b><u>Maximum<br/>Maturity</u></b> | <b><u>Maximum<br/>Percentage<br/>of Portfolio</u></b> | <b><u>Maximum<br/>Investment<br/>One Issuer</u></b> |
|--|------------------------------------|---|---|
| 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                           | 25%   | 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<br/>(In Months)</u> |                     |
|--|---|---------------------|
|  | <u>Fair Value</u>                         | <u>12 or Less</u>   |
| Los Angeles County Investment Pooled Investment Fund | \$ 274,722                                | \$ 274,722          |
| Repurchase Agreement                                 | 1,250,834                                 | 1,250,834           |
| Local Agency Investment Fund                         | 1,005,157                                 | 1,005,157           |
| <b>Total</b>   | <b>\$ 2,530,713</b>                       | <b>\$ 2,530,713</b> |

### **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, 2021 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 | \$ 274,722          | N/A                 | \$ 274,722          |
| Repurchase Agreement                                 | 1,250,834           | N/A                 | 1,250,834           |
| Local Agency Investment Fund                         | 1,005,157           | N/A                 | 1,005,157           |
| <b>Total</b>   | <b>\$ 2,530,713</b> |                     | <b>\$ 2,530,713</b> |

### **Fair Value Measurement (GASB 72)**

The information below shows the Authority's investments fair value measurements (market approach) as of June 30, 2021. 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 <sup>(A)</sup></u> | <u>Level 2 <sup>(B)</sup></u> | <u>Uncategorized</u> |
|--|----------------------|-------------------------------|-------------------------------|----------------------|
| Los Angeles County Investment Pooled Investment Fund | \$ 274,722           |                               |                               | \$ 274,722           |
| Repurchase Agreement                                 | 1,250,834            |                               | 1,250,834                     |                      |
| Local Agency Investment Fund                         | 1,005,157            |                               |                               | 1,005,157            |
| <b>Total</b>   | <b>\$ 2,530,713</b>  | <b>\$ -</b>                   | <b>\$ 1,250,834</b>           | <b>\$ 1,279,879</b>  |

<sup>(A)</sup> Level 1 - Quoted prices in active markets for identical assets

<sup>(B)</sup> 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, 2021:

| <b>Capital assets</b>                              | <b>Balance at<br/>6/30/2020</b> | <b>Additions</b>   | <b>Transfers,<br/>Sales &amp;<br/>Retirements</b> | <b>Balance at<br/>6/30/2021</b> |
|--|---------------------------------|--------------------|---|---------------------------------|
| Capital assets, not being depreciated:             |                                 |                    |   |                                 |
| Land   | \$4,285,096                     | \$0                | \$0   | \$4,285,096                     |
| Jobs in progress                                   | 2,366,835                       | 797,468            | (2,649,106)                                       | 515,197                         |
| <b>Total capital assets, not being depreciated</b> | <b>\$6,651,931</b>              | <b>\$797,468</b>   | <b>(\$2,649,106)</b>                              | <b>\$4,800,293</b>              |
| Capital assets, being depreciated:                 |                                 |                    |   |                                 |
| Facility   | 10,831,133                      | 0                  | 0   | 10,831,133                      |
| Structures & improvements                          | 72,597,638                      | 1,158,771          | 0   | 73,756,409                      |
| Operations equipment                               | 18,331,001                      | 1,490,335          | 0   | 19,821,336                      |
| <b>Total capital assets, being depreciated</b>     | <b>\$101,759,772</b>            | <b>\$2,649,106</b> | <b>\$0</b>  | <b>\$104,408,878</b>            |
| <b>Less accumulated depreciation for:</b>          |                                 |                    |   |                                 |
| Facility   | (2,707,785)                     | (216,623)          | 0   | (2,924,408)                     |
| Structures & improvements                          | (17,694,949)                    | (1,502,242)        | 0   | (19,197,191)                    |
| Operations equipment                               | (9,487,737)                     | (1,414,884)        |   | (10,902,621)                    |
| Total accumulated depreciation                     | (\$29,890,471)                  | (\$3,133,749)      | \$0   | (\$33,024,220)                  |
| Total capital assets, being depreciated, net       | \$71,869,301                    | (\$484,643)        | \$0   | \$71,384,658                    |
| Intangible assets, being amortized:                |                                 |                    |   |                                 |
| Capacity rights                                    | 1,037,088                       | 0                  | 0   | 1,037,088                       |
| <b>Total intangible assets, being amortized</b>    | <b>\$1,037,088</b>              | <b>\$0</b>         | <b>\$0</b>  | <b>\$1,037,088</b>              |
| <b>Less accumulated amortization for:</b>          |                                 |                    |   |                                 |
| Capacity rights                                    | (215,459)                       | (24,621)           | 0   | (240,080)                       |
| Total accumulated amortization                     | (\$215,459)                     | (\$24,621)         | \$0   | (\$240,080)                     |
| Total capital assets, being amortized, net         | \$821,629                       | (\$24,621)         | \$0   | \$797,008                       |
| <b>Total capital assets, net</b>                   | <b>\$79,342,861</b>             | <b>\$288,204</b>   | <b>(\$2,649,106)</b>                              | <b>\$76,981,959</b>             |

In FY 2020/21, the Authority added \$798,780 assets as Job in Progress, transferred \$2,649,106 to capital assets being depreciated, and increased Accumulated Depreciation and Amortization by \$3,158,370.

**(3) Changes in Capital Assets (continued):**

**Jobs in Progress**

As of fiscal Year-end June 30, 2021, the Authority had seven capital modification and improvement projects and sub-projects in progress.

|                                   |           |                |
|-----------------------------------|-----------|----------------|
| RCA Capital Replacement           | \$        | 325,695        |
| IERCF Pug Mill Improvements       |           | 137,165        |
| RCA Exterior Paint                |           | 52,074         |
| IERCF Trommel Screen Improvements |           | 263            |
| <b>Total Jobs in Progress</b>     | <b>\$</b> | <b>515,197</b> |

**(4) Restatement of Net Position and Related Accounts**

The effects of the restatement of net position are as follows:

|  |    |                   |
|--|----|-------------------|
| Net position as previously reported July 1, 2020 | \$ | 82,465,849        |
| Reversal of prior year expense accruals          |    | 200,000           |
| Net position as restated, July 1, 2020           |    | <u>82,665,849</u> |

To allocate anticipated equipment replacement costs over several years, in fiscal years 2018-19 and 2019-20 the Agency recognized future year expenses not yet incurred. These accruals have been reversed, decreasing prior year expenses and increasing the beginning Net Position on July 1, 2020 by \$200,000.



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