



FREEPORT REGIONAL WATER AUTHORITY

JUNE 30, 2020 AND 2019

BASIC FINANCIAL STATEMENTS

Focused
on YOU



THIS PAGE INTENTIONALLY LEFT BLANK

**FREEPORT REGIONAL
WATER AUTHORITY
Fiscal Years Ended June 30, 2020 and 2019**

Table of Contents

	Page
<i>Independent Auditors' Report</i>	1
<i>Management's Discussion and Analysis</i>	3
<i>Basic Financial Statements:</i>	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Basic Financial Statements	11
<i>Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i>	17

THIS PAGE INTENTIONALLY LEFT BLANK



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Freeport Regional Water Authority
Oakland, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Freeport Regional Water Authority (the Authority) as of and for the year ended June 30, 2020 and 2019, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special District. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.



To the Board of Directors
Freeport Regional Water Authority
Oakland, California

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2020 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, Soll & Lughard, LLP".

Sacramento, California
September 3, 2020

FREEPORT REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

June 30, 2020 and 2019

This section presents management's analysis of the Freeport Regional Water Authority (the Authority) financial condition and activities as of and for the year ended June 30, 2020 and 2019. Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the Authority's basic financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance.

This information should be read in conjunction with the audited financial statements that follow this section. The information in the MD&A is presented under the following headings:

- Organization and Business
- Overview of the Financial Statements
- Financial Analysis
- Request for Information

Organization and Business

The Freeport Regional Water Authority (the Authority) is a public entity established pursuant to California Government Code Section 6500 et seq. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated February 14, 2002, between the Sacramento County Water Agency (SCWA) and the East Bay Municipal Utility District (EBMUD). The Authority was established to construct a new surface water diversion on the Sacramento River with a capacity of 185 million gallons per day located upstream of the Freeport Bridge on the Sacramento River. Project was placed into service November 15, 2011.

For additional information, please see the notes to the basic financial statements.

Overview of the Financial Statements

The financial statements include a *statement of net position*, a *statement of revenues, expenses, and changes in net position*, a *statement of cash flows*, and *notes to the financial statements*. The report also contains other required supplementary information in addition to the basic financial statements.

The Authority's basic financial statements include:

The *Statements of Net Position* presents information on the Authority's assets and liabilities with the difference between the two reported as net position. It provides information about the nature and amount of resources and obligations at year-end.

The *Statements of Revenues, Expenses, and Changes in Net Position* presents the results of the Authority's operations over the course of the fiscal year and information as to how the *net position* changed during the year.

The *Statements of Cash Flows* presents changes in cash and cash equivalents resulting from operational capital and related investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt.

FREEPORT REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

June 30, 2020 and 2019

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis:

Table 1 summarizes net position at June 30, 2020 and 2019, and Table 2 summarizes revenues, expenses, and changes in net position for the years ended June 30, 2020 and 2019. Both tables also include changes from 2019 to 2020 in dollars.

Summary of Net Position (Table 1)

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Assets:			
Current assets	\$ 3,211,076	\$ 3,172,608	\$ 38,468
Capital assets	<u>349,826,180</u>	<u>355,886,562</u>	<u>(6,060,382)</u>
Total assets	<u>353,037,256</u>	<u>359,059,170</u>	<u>(6,021,914)</u>
Liabilities and net position:			
Current liabilities	<u>265,913</u>	<u>146,396</u>	<u>119,517</u>
Net position:			
Net investment in capital assets	349,826,180	355,886,562	(6,060,382)
Unrestricted	<u>2,945,163</u>	<u>3,026,212</u>	<u>(81,049)</u>
Total net position	<u>\$ 352,771,343</u>	<u>\$ 358,912,774</u>	<u>\$ (6,141,431)</u>

FREEPORT REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

June 30, 2020 and 2019

Summary of Revenues, Expenses and Changes in Net Position (Table 2)

Years ended June 30, 2020 and 2020

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Operating revenue	\$ 622,484	\$ 585,666	\$ 36,818
Operating expenses	(9,245,726)	(8,709,350)	(536,376)
Nonoperating revenues (expenses)	<u>1,056,673</u>	<u>2,254,837</u>	<u>(1,198,164)</u>
Gains (Loss) before capital contributions	(7,566,569)	(5,868,847)	(1,697,722)
Capital contributions	<u>1,425,138</u>	<u>1,358,468</u>	<u>66,670</u>
Change in net position	\$ <u>(6,141,431)</u>	\$ <u>(4,510,379)</u>	\$ <u>(1,631,052)</u>

- Current assets for the year ended June 30, 2020 increased \$0.04 million compared to the prior year. This increase is primarily due to the increase in cash and cash equivalents.
- Capital assets for the year ended June 30, 2020 decreased by \$6.0 million, primarily due to increase in depreciation expense.
- Current liabilities for the year ended June 30, 2020 increased by \$0.1 million due to increase in accounts payable.
- Operating revenue increased by \$0.04 million for the year ended June 30, 2020 due to increased member agency's operating contributions.

Request for Information

This financial report is designed to provide viewers with a general overview of the Freeport Regional Water Authority's finances and demonstrate the Authority's accountability for the monies it manages. If you have any questions about this report or need additional information, please contact: the FRWA Authority Treasurer, MS #402, P.O. Box 24055, Oakland, CA 94623-1055.

THIS PAGE INTENTIONALLY LEFT BLANK

FREEPORT REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

June 30, 2020 and 2019

FREEPORT REGIONAL WATER AUTHORITY**STATEMENTS OF NET POSITION**

JUNE 30, 2020 AND JUNE 30, 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,707,396	\$ 1,658,804
Due from member agencies (Note 4)	22,651	11,835
Other accounts receivable	1,477,517	1,492,631
Accrued interest receivable	<u>3,512</u>	<u>9,338</u>
Total Current Assets	<u>3,211,076</u>	<u>3,172,608</u>
Capital assets (Note 3)		
Intake facility and pipelines	399,948,932	398,523,795
Less accumulated depreciation	<u>(61,824,940)</u>	<u>(54,339,421)</u>
Subtotal	338,123,992	344,184,374
Land	<u>11,702,188</u>	<u>11,702,188</u>
Total Capital Assets, Net	<u>349,826,180</u>	<u>355,886,562</u>
Total Assets	<u>353,037,256</u>	<u>359,059,170</u>
LIABILITIES		
Accounts payable	<u>265,913</u>	<u>146,396</u>
Total Liabilities	<u>265,913</u>	<u>146,396</u>
NET POSITION (Note 1B)		
Net investment in capital assets	349,826,180	355,886,562
Unrestricted	<u>2,945,163</u>	<u>3,026,212</u>
Total Net Position	<u>\$ 352,771,343</u>	<u>\$ 358,912,774</u>

See accompanying notes to financial statements.

FREEPORT REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

June 30, 2020 and 2019

FREEPORT REGIONAL WATER AUTHORITY**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019**

	<u>2020</u>	<u>2019</u>
Operating revenue:		
East Bay Municipal Utility District	\$ 336,477	\$ 316,576
Sacramento County Water Agency	<u>286,007</u>	<u>269,090</u>
	<u>622,484</u>	<u>585,666</u>
Operating expenses:		
General and administrative	(1,760,206)	(1,371,554)
Depreciation (Note 3)	<u>(7,485,520)</u>	<u>(7,337,796)</u>
	<u>(9,245,726)</u>	<u>(8,709,350)</u>
Net operating income (loss):	<u>(8,623,242)</u>	<u>(8,123,684)</u>
Nonoperating revenue and expenses:		
Interest income	21,259	49,233
Administrative contributions		
East Bay Municipal Utility District	475,732	1,013,387
Sacramento County Water Agency	<u>559,682</u>	<u>1,192,217</u>
	<u>1,056,673</u>	<u>2,254,837</u>
Income (loss) before capital contributions	<u>(7,566,569)</u>	<u>(5,868,847)</u>
Capital contributions	<u>1,425,138</u>	<u>1,358,468</u>
Change in net position	<u>(6,141,431)</u>	<u>(4,510,379)</u>
Total net position - beginning	<u>358,912,774</u>	<u>363,423,153</u>
Total net position - ending	<u><u>\$ 352,771,343</u></u>	<u><u>\$ 358,912,774</u></u>

See accompanying notes to financial statements.

FREEPORT REGIONAL WATER AUTHORITY

Management's Discussion and Analysis

June 30, 2020 and 2019

FREEPORT REGIONAL WATER AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019

	<u>2020</u>	<u>2019</u>
Cash provided by (used in) operating activities:		
Cash paid for supplies and services	\$ (1,008,081)	\$ (2,369,883)
Cash provided by (used in) capital and related financing activities:		
Cash received from members	1,425,138	1,358,468
Cash paid on behalf of members	-	227,846
Cash paid for construction of capital assets	(1,425,138)	(1,358,468)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>227,846</u>
Cash provided by investing activities:		
Interest and other income received	<u>1,056,673</u>	<u>2,254,837</u>
Net change in cash and cash equivalents	48,592	112,878
Cash and cash equivalents:		
Beginning of year	<u>1,658,804</u>	<u>1,545,926</u>
End of year	<u><u>\$ 1,707,396</u></u>	<u><u>\$ 1,658,804</u></u>
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (8,623,242)	\$ (8,123,684)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	7,485,520	7,337,796
Changes in operating assets and liabilities:		
Accounts payable	119,517	225,592
Accounts receivable	<u>10,124</u>	<u>(1,809,587)</u>
Net cash (used in) operating activities	<u><u>\$ (1,008,081)</u></u>	<u><u>\$ (2,369,883)</u></u>

See accompanying notes to financial statements.

THIS PAGE INTENTIONALLY LEFT BLANK

FREEPORT REGIONAL WATER AUTHORITY

Notes to Basic Financial Statements

For the years ended June 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES

A. Description of Reporting Entity

The Freeport Regional Water Authority (the Authority) is a public entity established pursuant to California Government Code Section 6500 et seq. The Authority was created in accordance with the terms of a Joint Exercise of Powers Agreement, dated February 14, 2002, between the Sacramento County Water Agency (SCWA) and the East Bay Municipal Utility District (EBMUD). The Authority was established to construct a new surface water diversion on the Sacramento River with a capacity of 185 million gallons per day located upstream of the Freeport Bridge on the Sacramento River.

An additional member, or members, may be added to the Authority upon request, evidenced by submission of a certified copy of a resolution adopted by the governing body of the public agency requesting membership.

Members are currently required to contribute funds in the allocation of 45.946% from SCWA and 54.054% from EBMUD to the Authority towards any revenue shortfalls that are specified in the Authority's approved operational expenditure budgets. When the facilities become operational, operating expenses will be allocated based on each member's actual usage, and capital costs, including debt service, will be allocated based on each member's available capacity.

B. Basis of Accounting and Presentation

The accompanying financial statements report the financial position of the Authority in accordance with accounting principles generally accepted in the United States of America. As the Authority is a governmental entity, the preparation of its financial statements is governed by the pronouncements of the Governmental Accounting Standards Board (GASB).

The Authority as a proprietary enterprise is accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Statements of Net Position – The statement of net position is designed to display the financial position of the Authority. The Authority's fund equity is reported as net position, which is broken down into the following categories:

FREEPORT REGIONAL WATER AUTHORITY

Notes to Basic Financial Statements

For the years ended June 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (Continued)

- *Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, if any, that are attributable to the acquisition, construction, or improvement of those assets.
- *Unrestricted* – This component of net position consists of net position that do not meet the definition of “restricted” or “Net investment in capital assets.”

Statements of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income.

C. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. *Capital Assets*

The additions to capital assets are capitalized at historical cost. Cost includes material, direct labor and fringe benefits, transportation, and such indirect items as engineering, supervision, and interest on borrowed funds during construction, net of interest earned on unspent construction proceeds. Repairs, maintenance, and minor purchases of equipment are charged to expenses as incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the related assets (5 to 100 years).

The depreciated cost of capital assets, plus removal costs, less salvage, is charged to expense upon retirement.

E. *Cash and Cash Equivalents*

The Authority considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

FREEPORT REGIONAL WATER AUTHORITY

Notes to Basic Financial Statements

For the years ended June 30, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFIGANT ACCOUNTING POLICIES (Continued)

F. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

NOTE 2 – CASH AND INVESTMENTS

A. Composition

The Authority's cash and cash equivalents consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash in Bank	\$ 707,396	\$ 658,804
Local Agency Investment Fund	1,000,000	1,000,000
Total Cash and Cash Equivalents	<u>\$ 1,707,396</u>	<u>\$ 1,658,804</u>

B. Collateralization of Cash and Cash Equivalents

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Authority's cash on deposit or first trust deed mortgage notes with a value of 150% of the Authority's cash on deposit as collateral for these deposits. Under California Law this collateral is held in an investment pool by an independent financial institution in the Authority's name and places the Authority ahead of general creditors of the institution pledging the collateral. The Authority has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

FREEPORT REGIONAL WATER AUTHORITY

Notes to Basic Financial Statements

For the years ended June 30, 2020 and 2019

NOTE 2 – CASH AND INVESTMENTS (Continued)

The Authority's investments are carried at fair value, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year, and it includes the effects of these adjustments in income for that fiscal year.

C. Credit Risk

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. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2020.

D. Fair Value Hierarchy

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The California Local Agency Investment Fund is exempt from classification for fair value hierarchy.

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by purchasing a combination of short-term and long-term investments and holding investments to maturity. The Authority's only investment is in the California Local Agency Investment Fund which can be withdrawn at any time usually within a day.

F. Local Agency Investment Fund (LAIF)

The Authority is a participant in the Local Agency Investment Fund (LAIF), which is regulated by California Government Code §16429 under the oversight of the Treasurer of the State of California. The value of the pool shares in LAIF is determined on an amortized cost basis, which is different from the fair value of its position in the pool. The Authority's investments with LAIF at June 30, 2020 and 2019 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

- Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

FREEPORT REGIONAL WATER AUTHORITY

Notes to Basic Financial Statements

For the years ended June 30, 2020 and 2019

NOTE 2 – CASH AND INVESTMENTS (Continued)

- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets, such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2020 and 2019, The Authority had investments of \$1,000,000 and \$1,000,000, respectively, invested in LAIF, which had invested 3.37% and 1.77% of the pooled investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.004912795 and 1.001711790 as of June 30, 2020 and 2019, respectively was used to calculate the fair value of the investments in LAIF.

NOTE 3 – CAPITAL ASSETS

Capital assets as of June 30, 2020 consist of land, not being depreciated and capital assets being depreciated. The capital assets began depreciation effective November 2011. Construction of capital assets is funded through member contributions.

	Balance at June 30, 2019	Additions	Transfers	Balance at June 30, 2020
Capital assets not being depreciated:				
Land	\$ 11,702,188	\$ -	\$ -	\$ 11,702,188
Construction in progress	-	1,425,138	(1,425,138)	-
Total capital assets not being depreciated	11,702,188	1,425,138	(1,425,138)	11,702,188
Capital assets, being depreciated:				
Intake Facility	200,013,320	-	1,400,974	201,414,294
Pipelines	198,510,474	-	24,164	198,534,638
Total capital assets being depreciated	398,523,794	-	1,425,138	399,948,932
Total accumulated depreciation	(54,339,420)	(7,485,520)	-	(61,824,940)
Net capital assets being depreciated	344,184,374	(7,485,520)	-	338,123,992
Capital assets, net	\$ 355,886,562	\$ (6,060,382)	\$ -	\$ 349,826,180

FREEPORT REGIONAL WATER AUTHORITY

Notes to Basic Financial Statements

For the years ended June 30, 2020 and 2019

NOTE 4 – DUE FROM AND PAYABLE TO MEMBER AGENCIES

The Authority entered into contracts with two vendors for professional consulting and construction services on the FRWA project. Under these contracts, the service providers provide services to the FRWA project, as well as to member agencies' exclusive projects. As of June 30, 2020, the Authority has no outstanding payables to SCWA or EBMUD.

NOTE 5- RELATED PARTY TRANSACTION

SCWA and EBMUD both provide professional services to the Authority, including SCWA's operation of the facilities in which these costs are shared by the two agencies. EBMUD provides certain treasury management and accounting services including conducting all cash transactions and providing for the annual audit. The two members received the following total reimbursements for their services for the year ended June 30, 2020 and 2019:

	2020	2019
SCWA	\$ 642,677	\$ 575,414
EBMUD	37,629	41,814
Totals	<u>\$ 680,306</u>	<u>\$ 617,228</u>

NOTE 6- RISK MANAGEMENT

The Authority's liability and property risks are insured through the Special District Risk Management Authority insurance carriers. Selected insurance coverages include:

Coverage	Policy limit
General liability	\$ 10,000,000
Public officials and employees errors	10,000,000
Personal liability for board members	500,000
Employment practices liability	10,000,000
Employee Benefits liability	10,000,000
Employee dishonesty coverage	1,000,000
Auto liability	10,000,000
Uninsured / underinsured motorists	1,000,000

Any liability the Authority may have for uninsured claims is limited to general liability claims. However, the Authority has experienced no losses from such claims during the preceding three years and it therefore believes there is no liability for claims incurred but not reported. Capital assets are covered under insurance policies held by the Authority.



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

To the Board of Directors
Freeport Regional Water Authority
Oakland, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Freeport Regional Water 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, and have issued our report thereon dated September 3, 2020.

Internal Control over Financial Reporting

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

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

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



To the Board of Directors
Freeport Regional Water Authority
Oakland, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Lance, Soll & Lughard, LLP".

Sacramento, California
September 3, 2020