

**Santa Rosa Plain Groundwater
Sustainability Agency**

Independent Auditor's Reports and
Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Table of Contents

| | Page |
|---|-------------|
| Independent Auditor's Report | 1-2 |
| Basic Financial Statements: | |
| Statement of Net Position..... | 3 |
| Statement of Revenues, Expenses and Changes in Net Position..... | 4 |
| Statement of Cash Flows..... | 5 |
| Notes to the Basic Financial Statements..... | 6-11 |
| Compliance: | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 12-13 |

Assets:

Current assets:

| | | |
|----------------------|----|-----------------------|
| Cash and investments | \$ | 157,432 |
| Accounts receivable | | <u>200,220</u> |
| Total current assets | | <u>357,652</u> |
| Total assets | | <u><u>357,652</u></u> |

Liabilities:

Current liabilities

| | | |
|---------------------------|--|----------------|
| Accounts payable | | <u>312,398</u> |
| Total current liabilities | | <u>312,398</u> |
| Total liabilities | | <u>312,398</u> |

Net position:

| | | |
|--------------------|----|----------------------|
| Unrestricted | | <u>45,254</u> |
| Total net position | \$ | <u><u>45,254</u></u> |

| | |
|----------------------------------|-------------------------|
| Operating revenues: | |
| Member fees | \$ 448,000 |
| In-kind member fees | 84,000 |
| Total operating revenues | <u>532,000</u> |
| Operating expenses: | |
| Services and supplies | 624,403 |
| Professional services | 84,000 |
| Total operating expenses | <u>708,403</u> |
| Operating loss | <u>(176,403)</u> |
| Nonoperating revenues: | |
| Investment earnings | 5,716 |
| Intergovernmental revenue | 146,259 |
| Total nonoperating revenues | <u>151,975</u> |
| Change in net position | (24,428) |
| Net position, beginning of year | <u>69,682</u> |
| Net position, end of year | <u><u>\$ 45,254</u></u> |

Cash flows from operating activities

| | | |
|-------------------------------|----|------------------|
| Receipts from member agencies | \$ | 395,149 |
| Payments to suppliers | | <u>(399,390)</u> |

| | | |
|---------------------------------------|--|----------------|
| Net cash used by operating activities | | <u>(4,241)</u> |
|---------------------------------------|--|----------------|

Cash flows from investing activities

| | | |
|-------------------|--|--------------|
| Interest received | | <u>5,716</u> |
|-------------------|--|--------------|

| | | |
|---|--|-------|
| Net increase in cash and cash equivalents | | 1,475 |
|---|--|-------|

| | | |
|--|--|----------------|
| Cash and cash equivalents, beginning of the year | | <u>155,957</u> |
|--|--|----------------|

| | | |
|--|----|-----------------------|
| Cash and cash equivalents, end of the year | \$ | <u><u>157,432</u></u> |
|--|----|-----------------------|

Reconciliation of operating loss to net cash**used for operating activities:**

| | | |
|----------------|----|-----------|
| Operating loss | \$ | (176,403) |
|----------------|----|-----------|

Adjustments to reconcile operating loss to net cash
used by operating activities:

| | | |
|---------------------------------|--|----------|
| Increase in accounts receivable | | (52,850) |
|---------------------------------|--|----------|

| | | |
|-----------------------------|--|-------|
| Decrease in prepaid expense | | 2,250 |
|-----------------------------|--|-------|

| | | |
|------------------------------|--|----------------|
| Increase in accounts payable | | <u>222,762</u> |
|------------------------------|--|----------------|

| | | |
|--|----|-----------------------|
| Net cash used for operating activities | \$ | <u><u>(4,241)</u></u> |
|--|----|-----------------------|

Note A. Summary of Significant Accounting Policies

Reporting Entity

The Santa Rosa Plain Groundwater Sustainability Agency (the Agency) was formed in June 2017 by a joint exercise of powers agreement among the Sonoma and Gold Ridge Resource Conservation Districts; the cities of Cotati, Rohnert Park and Santa Rosa; the Town of Windsor; the County of Sonoma, and the Sonoma County Water Agency (Sonoma Water). In addition, the Independent Water Providers (comprised of mutual water companies and independently owned utilities) participate in the JPA through a Memorandum of Agreement. The Independent Water Providers have a seat on the Agency Board and contribute to the functioning of the Agency.

The Agency was formed to cooperatively carry out the requirements of the Sustainable Groundwater Management Act (SGMA), including serving as Groundwater Sustainability Agency (GSA) for the Santa Rosa Plain Groundwater Basin.

The Santa Rosa Plain Groundwater Basin was designated in Department of Water Resources Bulletin No. 118 as a medium priority basin. However, in 2019, the basin was reprioritized as high priority. For all medium and high priority basins, the SGMA requires the designation of a GSA for the purpose of achieving groundwater sustainability through the adoption and implementation of a Groundwater Sustainability Plan (GSP). The SGMA requires the formation of GSAs by June 30, 2017, and the adoption of GSPs by January 31, 2022.

The Agency is governed by a Board of Directors, with one Director from each of the eight member agencies and a Director representing the Independent Water Providers. In addition, the Agency has an advisory committee consisting of representatives from each member agency, and representatives from the local agricultural community, rural residential well owners, the local business community, environmental interests, the Federated Indians of Graton Rancheria, and the community at large. During the year ending June 30, 2019, the Agency's operations were funded by member fees. Beginning in July 2019, the Agency's operations are funded by groundwater sustainability fees payable by groundwater extractors.

During the fiscal year ended June 30, 2019, the Gold Ridge Resource Conservation District provided fiscal management services for the Agency; West Yost Associates provided administrative and management services; Sonoma Water provided grant application, grant management, outreach, communication, and technical services; the Collaboration and Consensus Program (College of Continuing Education, California State University, Sacramento) provided facilitation services.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities (whether current or noncurrent) associated with Agency operations are included on the statement of net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows.

Note A. Summary of Significant Accounting Policies (continued)

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

The Agency's Enterprise Fund financial statements report business-type activities financed in whole or in part by member fees. Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges such as membership fees.

Operating revenues and expenses are distinguished from non-operating items in the statement of revenues, expenses and changes in net position. Operating revenues, such as member fees, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Non-operating revenues, such as investment earnings and grant revenues, result from non-exchange transactions or ancillary activities. Operating expenses for enterprise funds include services and supplies. All expenses not falling within these categories are reported as non-operating expenses.

Cash and Investments

For purpose of the statement of cash flows, the Agency has defined cash equivalents to include investments within the County of Sonoma treasury pool that are not restricted as to use. The Agency applies the provisions of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

Net Position Components

Net position consists of the following three components:

Net investment in capital assets (if any) - This component of net position consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position (if any) - This component of net position consists of net position with externally imposed limits on its use.

Unrestricted net position - This component of net position consists of all net position that does not meet the definition of net investment in capital assets or restricted net position.

Note A. Summary of Significant Accounting Policies (continued)

Member Fees and In-Kind Member Fees

Funding for the operation of the Agency is through member fees. Member fees are paid in cash, paid through in-kind services in-lieu of cash, or a combination of both.

The Agency follows standards relating to in-kind services received as member fees consistent with FASB ASC Topic 958 Not-for-Profit Entities. These accounting standards require recording the value of in-kind services that create or enhance non-financial assets or require specialized skills as both revenue and expense in the period in which the services are performed.

Intergovernmental Revenue

Intergovernmental Revenue consists of a grant from the State of California. Revenue is recognized based on the terms of the grant agreement.

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 and disclosures. Actual results could differ from those estimates.

Note B. Cash and Investments

The Agency follows the County's practice of pooling cash and investments with the County Treasurer. Cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the Agency. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Investment Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's prorated share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis.

Amortized cost: \$156,130

Fair value: \$157,432

The Agency's fair value of the cash investment with the Treasurer is \$1,302 more than the amortized cost of those investments.

Note B. Cash and Investments (continued)

Investment Guidelines

The Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Suite 100, Santa Rosa, California, 95403-2871.

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 is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2019, approximately 48.3 percent of the securities in the Treasury pool had maturities of one year or less. Of the remainder, only 1 percent had a maturity of more than five years.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty 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. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of government investment pools (such as the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2018-2019 Sonoma County Comprehensive Annual Financial Report.

Note C. Accounts Receivable

As of June 30, 2019, the Agency has \$53,961 in accounts receivable related to member fees and \$146,259 related to grant funding. The Agency has not recorded an allowance for uncollectible receivables as it deems all receivables as fully collectible.

Note D. Member Fees and In-Kind Member Fees

Member fees for the year ending June 30, 2019 were as follows:

| Agency | Cash Member Fees | In-Kind Member Fees | Receivables | Total |
|---|---------------------------------|------------------------------------|--------------------|-------------------|
| City of Cotati | \$ 63,500 | \$ - | \$ 500 | \$ 64,000 |
| City of Rohnert Park | 64,000 | - | - | 64,000 |
| City of Santa Rosa | 64,000 | - | - | 64,000 |
| Town of Windsor | 64,000 | - | - | 64,000 |
| Gold Ridge Resource Conservation District | 22,000 | 20,000 | 22,000 | 64,000 |
| Sonoma Resource Conservation District | 13,300 | - | 6,700 | 20,000 |
| County of Sonoma | 42,500 | - | 21,500 | 64,000 |
| Sonoma Water | - | 64,000 | - | 64,000 |
| Independent Water Providers | 60,739 | - | 3,261 | 64,000 |
| Total | \$ 394,039 | \$ 84,000 | \$ 53,961 | \$ 532,000 |

Cash member fees are member fees paid in cash on or before June 30, 2019. In-kind member fees are member fees in the form of services provided to the Agency.

Note E. Risk Management

The Agency is exposed to various risks for which the Agency carries insurance with coverage for general liability, auto liability, and crime. Primary insurance is provided by Golden State Risk Management Authority and excess insurance by Alliant Insurance Services. Total coverage limits are \$1,000,000 for auto liability and general liability with \$0 deductible. Coverage limits for crime are \$10,000,000 per occurrence and \$5,000,000 per occurrence over \$10,000,000, with \$2,500 deductible.

Note F. Related Party Transactions

During the Fiscal Year ended June 30, 2019, member agencies provided \$336,494 in professional services, partially in the form of in-kind services provided in-lieu of cash. The Gold Ridge Resource Conservation District provided fiscal management services, and Sonoma Water provided grant application, grant management, outreach, communication and technical services.

| Member | In-Kind Services | Services and Supplies | Total |
|---|-----------------------------|--------------------------------------|-------------------|
| Gold Ridge Resource Conservation District | \$ 20,000 | \$ 605 | \$ 20,605 |
| Sonoma Water | 64,000 | 251,889 | 315,889 |
| Total | \$ 84,000 | \$ 252,494 | \$ 336,494 |