

**FOX CANYON GROUNDWATER
MANAGEMENT AGENCY**

**BASIC FINANCIAL STATEMENTS
With Independent Auditor's Report Thereon**

**FOR THE YEARS ENDED
JUNE 30, 2014 AND 2013**

**FOX CANYON GROUNDWATER
MANAGEMENT AGENCY**

Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

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Independent Auditor's Report

The Honorable Board of Directors of the
Fox Canyon Groundwater Management Agency
Ventura, California

We have audited the accompanying financial statements of Fox Canyon Groundwater Management Agency as of and for the years ended June 30, 2014 and 2013, and the related notes to the 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

The Honorable Board of Directors of the
Fox Canyon Groundwater Management Agency
Ventura, California

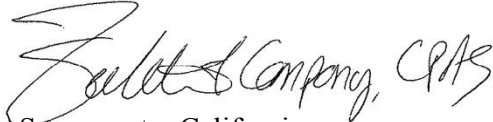
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fox Canyon Groundwater Management Agency as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-11 and 24-25 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.

Fechter & Company,
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs".

Sacramento, California
May 15, 2015

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2014 and 2013

Our discussion and analysis of the Fox Canyon Groundwater Management Agency (Agency) financial performance provides an overview of the Agency's financial activities for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the financial statements following this section.

AGENCY DESCRIPTION

The Fox Canyon Groundwater Management Agency (the Agency) was created by the State of California on September 13, 1982, under Assembly Bill No. 2995 Chapter 1023. The Agency was created to manage the groundwater in over drafted and potentially seawater intruded areas in Ventura County. The prime Agency objective is to preserve groundwater resources for agricultural, municipal, and industrial uses in the best interests of the public and for the common benefit of all water users. A five-member board of directors governs the Agency. The Agency has no employees but contracts with the County of Ventura for staff services to provide professional and technical expertise, legal, administrative and fiscal services needed to run the day-to-day operations of the organization.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of two components: 1) Enterprise financial statements, and 2) Notes to the financial statements.

The Enterprise financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to private-sector business.

The statement of net position presents information on all Agency assets and liabilities, with differences between the two reported as net Position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information on how net position changed during the most recent two fiscal years. All revenues and expenses are reported as soon as the underlying event giving rise to revenue or expense occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement include some items that will only result in cash flows in future fiscal periods.

The statement of cash flows presents information on how cash changed during the most recent two fiscal years.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2014 and 2013

Under Governmental Accounting Standards Board Statement 34 (GASB 34) the Agency is considered a special purpose government engaged in the preservation of groundwater resources within the territory of the Agency. Under the provisions of GASB 34 the Agency is required to prepare its financial statements in an enterprise (business activity) format. The Agency is funded primarily through user extraction charges, with these charges used to protect and preserve the groundwater resources.

The basic financial statements can be found on pages 10 thru 12 of this report.

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. The notes to the financial statements begin on page 13 of this report.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2012

- Agency assets at June 30, 2012 exceeded liabilities by \$3,736,764. Of this amount \$280,679 is classified as Invested in Capital Assets (this represents the Agency's investment in capital assets net of accumulated depreciation); \$3,456,085 is classified as *Unrestricted* and may be used to meet ongoing obligations of the Agency. \$1,004,961 of this amount is considered *Designated*, consisting of \$504,961 designated for groundwater extraction enforcement activities and \$500,000 designated for the Groundwater Supply Enhancement Assistance Program.
- Operating revenues for 2012 were \$457,375 higher than 2011, a 60% increase.
- Total Expenses for 2012 were \$6,508 lower than 2011, a 1% decrease.

Year ended June 30, 2013

- Agency assets at June 30, 2013 exceeded liabilities by \$3,985,149. Of this amount \$290,615 is classified as Invested in Capital Assets (this represents the Agency's investment in capital assets net of accumulated depreciation); \$3,694,534 is classified as *Unrestricted* and may be used to meet ongoing obligations of the Agency. \$1,242,258 of this amount is considered *Designated*, consisting of \$1,012,332 designated for groundwater extraction enforcement activities and \$229,926 designated for the Groundwater Supply Enhancement Assistance Program.
- Operating revenues for 2013 were \$32,312 higher than 2012, a 3% increase.
- Total Expenses for 2013 were \$176,169 higher than 2012, a 21% increase.

Year Ended June 30, 2014

- Agency assets at June 30, 2014 exceeded liabilities by \$4,443,473. Of this amount \$254,674 is classified as Invested in Capital Assets (this represents the Agency's investment in capital assets net of accumulated depreciation); \$4,188,799 is classified as *Unrestricted* and may be used to meet ongoing obligations of the Agency. \$1,214,066 of this amount is considered *Designated*, consisting of \$1,015,854 designated for groundwater extraction enforcement activities and \$198,212 designated for the Groundwater Supply Enhancement Assistance Program.
- Operating revenues for 2014 were \$201,330 higher than 2013, a 16% increase.
- Total Expenses for 2014 were \$7,470 less than 2013, a 1% decrease

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2014 and 2013

FINANCIAL ANALYSIS

Revenues Extraction Charges:

The primary revenue source for the Agency is extraction charges that are assessed at \$4.00 per acre-foot against all well owners within the geographic boundaries of the Agency. In addition, the District places a surcharge for extraction in excess of the baseline allowance. The intent of the surcharge is to discourage extraction of groundwater in excess of the approved allocation when that extraction will adversely affect achieving safe yield of any basin within the Agency. Surcharges are assessed using a tiered structure with a base of \$1,105 for 25 acre-feet or less; an additional \$250 per acre-foot over 25 but less than 100 acre-feet and an additional \$500 per acre-foot over 100 acre-feet.

The following summarizes extraction and surcharge revenues for the years ended June 30, 2014, 2013 and 2012:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Fee per acre foot	\$ 4.00	\$ 4.00	\$4.00
Acre feet pumped	143,956	153,338	123,685
Extraction Revenue	\$ 575,824	\$ 613,352	\$ 494,740
Surcharge revenue	\$ 868,057	\$ 650,371	\$ 718,844

Interest:

The Agency receives interest revenue from the Ventura County Treasury Pool (VCTP) where the Agency's cash is invested and from two settlement agreements relating to unreported water usage.

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Interest earned from Ventura County	\$ 8,940	\$ 4,755	\$ 13,498
Interest earned – settlement agreements	<u>5,262</u>	<u>8,308</u>	<u>15,851</u>
Total interest earned	<u>\$ 14,202</u>	<u>\$ 13,063</u>	<u>\$ 29,349</u>

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2014 and 2013

Table 1 below provides a comparison of the Agency's Statements of Net Position at June 30, 2014, 2013 and 2012 in a condensed format:

Table 1
Condensed Statements of Net Position
June 30, 2014, 2013 and 2012

	2014	2013	2012
Assets			
Current assets	\$ 4,299,120	\$ 3,541,218	\$ 3,189,229
Capital assets	254,674	290,615	280,679
Other noncurrent assets	-	244,738	386,430
Total Assets	\$ 4,553,794	\$ 4,076,571	\$ 3,856,338
Liabilities			
Current Liabilities	\$ 110,321	\$ 91,422	\$ 119,574
Net position			
Invested in capital assets	254,674	290,615	280,679
Unrestricted	4,188,799	3,694,534	3,456,085
Total Net Position	\$ 4,443,473	\$ 3,985,149	\$ 3,736,764

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2014 and 2013

Table 2 below provides the results of the Agency's financial activities as of June 30, 2014, 2013 and 2012 and the impact on Net Position.

Table 2
Changes in Net Position
June 30, 2014, 2013 and 2012

	2014	2013	2012
Operating Revenues:			
Extraction charges and surcharges	\$ 1,443,882	\$1,244,013	\$ 1,213,584
Penalties	12,954	11,391	8,906
Miscellaneous revenue	-	102	704
	<u>1,456,836</u>	<u>1,255,506</u>	<u>1,223,194</u>
Non-Operating Revenues:			
Interest earnings	14,202	13,063	29,349
	<u>1,471,038</u>	<u>1,268,569</u>	<u>1,252,543</u>
Program Expenses:			
General government	1,012,714	1,020,184	844,015
	<u>458,324</u>	<u>248,385</u>	<u>408,528</u>
Increase in Net Position	<u><u>\$ 458,324</u></u>	<u><u>\$ 248,385</u></u>	<u><u>\$ 408,528</u></u>

As the table shows, for 2014, the Agency's revenue exceeded its expenses by \$458,324 which resulted in a corresponding increase the Agency's Net Position. This compares favorably with the \$248,385 and \$408,528 experiences for 2013 and 2012 respectively.

Operating revenues 2014 of \$1,456,836 reflect an increase of \$ 201,330 over 2013 revenue of \$1,255,506 which was a \$32,312 increase over the 2012 amount of \$1,223,194. The increase is primarily a result of variances in surcharge fees incurred and a final payment of \$250,000 paid by Houweling Nurseries and \$115,995 paid by Sterling Hills in 2014. Due to the volatile nature of these fees, which vary based on the well owner's pumping activities, the Agency budgets a minimal amount as an ongoing revenue source.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2014 and 2013

On the expense side, General Government activities decreased by \$7,470 in 2014 from the 2013 amount of \$1,020,184 which was a \$176,169 increase over 2012. The change is the net result of the combined effects of an increase in Public Works Agency charges offset by decreased cost in Professional Specialty Services related to services performed by the Source Group United Water Conservation, United Water Conservation District and the Irrigation Training and Research Center at California Polytechnic State University.

BUDGETARY INFORMATION

Table 3a presents the Agency's final budget and actual results for fiscal year 2014.

Table 3a
Final Budgets versus Actual Results
Year Ended June 30, 2014

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Extraction charges and surcharges	\$ 1,125,000	\$ 1,456,836	\$ 331,836
Interest	<u>15,000</u>	<u>14,202</u>	<u>(798)</u>
Total Revenues	<u>1,140,000</u>	<u>1,471,038</u>	<u>331,038</u>
Expenses:	<u>1,301,220</u>	<u>1,012,714</u>	<u>288,506</u>
Excess expenses over revenues	<u>\$ (161,220)</u>	<u>\$ 458,324</u>	<u>\$ 619,544</u>

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2014 and 2013

The Agency's fiscal year runs from July 1 to June 30. In June, the Agency adopts a budget for the new fiscal year starting July 1. Adjustments to the adopted budget may be approved throughout the fiscal year to address Board priorities. The Final Budget reflects approved adjustments for the fiscal year ended June 30, 2014.

The positive revenue variance of \$331,838 is primarily attributable to actual surcharge revenue exceeding the budget primarily from over-pumping by Houweling's Nurseries and Sterling Hills.

On the expense side, the positive variance of \$288,506 is attributable to the following changes:

- Professional Specialty services paid only one payment of the \$31,714 toward the GSEAP grant award.
- The Investment Signal Contract was finalized in 2013.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2014 and 2013

Table 3b presents the Agency's final budget and actual results for fiscal year 2013.

Table 3b
Final Budgets versus Actual Results
Year Ended June 30, 2013

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Extraction charges and surcharges	\$ 1,021,000	\$ 1,255,506	\$ 235,506
Interest	15,000	13,063	(1,937)
Total Revenues	<u>1,035,000</u>	<u>1,268,569</u>	<u>233,569</u>
Expenses:	<u>1,817,876</u>	<u>1,020,184</u>	<u>797,692</u>
Excess expenses over revenues	<u>\$ (782,876)</u>	<u>\$ 248,385</u>	<u>\$ 1,031,261</u>

The positive revenue variance of \$233,569 is attributable to actual extraction revenue exceeding the budget as a result of increase pumping activity by well owners.

On the expense side the positive variance of \$797,692 can be attributed to the following budgeted services not being performed during fiscal year 2013:

- Groundwater Management Plan, enhanced meter well inspection and digitization of FCGMA files
- GSEAP grant actual expenses were \$270,073 of the of the \$500,000 grant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets consist of six monitoring wells that were donated to the Agency in September 1990. The wells were depreciated over a 15 year useful life and were fully depreciated as of the end of the fiscal year ended June 30, 2006.

The Fox Canyon Groundwater Management online database system was put in production February 1, 2012. The system has many features that improve processes including online support, workflow management, and online semi-annual reporting and fee payment. The Agency has had no debt in the years reported.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2014 and 2013

FUTURE ACTIONS

1. On June 25, 2014, Fox Canyon Groundwater Management Agency (the Agency) approved Resolution No. 2014-02 which ordered that effective July 1, 2014, the groundwater extraction charge shall be six (\$6.00) per acre-foot for groundwater extracted from facilities within the boundary of the Agency.
2. On September 16, 2014, Governor Brown signed Assembly Bill 1739 and Senate Bills 1168 and 1319, creating the Sustainable Groundwater Management Act (the ACT). The Act became effective January 1, 2015 and authorizes the formation of a Groundwater Sustainability Agency (GSA) for each basin identified by the Department of Water Resources (DWR). The Act further provides that each such basin designated by DWR as being a high or medium priority is required to be managed under a Groundwater Sustainability Plan.
3. On January 9, 2015, the Agency approved Resolution No. 2015-01, a resolution electing to be the GSA for Arroyo Santa Rosa Valley, (West, South, East) Las Posas Valley, Oxnard Forebay, Oxnard Plain, and Pleasant Valley Basins within the boundaries of the Agency.

The resolution No. 2015-01 ordered that a) Fox Canyon Groundwater Management Agency elect to be exclusive groundwater management agency with the statutory boundaries with powers to comply with the Sustainable Groundwater Management Act; b) The Executive Officer is authorized to submit to the Department of Water Resources on behalf of the Agency a notice of intent to undertake sustainable groundwater management in accordance with Part 2.74 of the Water Code.

REQUEST FOR INFORMATION

If you have any question about this report or need additional information, contact the Fox Canyon Groundwater Management Agency, 800 South Victoria Avenue, Ventura, CA 93009-1600.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Statements of Net Position June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and investments	\$2,754,100	\$2,010,500
Designated cash - GEMES	1,015,854	1,012,332
Designated cash - GSEAP	198,212	229,926
Due from the County of Ventura	3,348	3,564
Accounts receivable	327,606	283,805
Interest receivable	-	1,091
Notes receivable, net of unamortized discount, current portion	-	-
Total Current Assets	<u>4,299,120</u>	<u>3,541,218</u>
NON-CURRENT ASSETS		
Fixed assets, net of accumulated depreciation	254,674	290,615
Note receivable, net of unamortized discount	-	244,738
Total Non-Current Assets	<u>254,674</u>	<u>535,353</u>
Total Assets	<u><u>\$4,553,794</u></u>	<u><u>\$4,076,571</u></u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 110,321	\$ 91,422
Due to County of Ventura	-	-
Total Current Liabilities	<u>110,321</u>	<u>91,422</u>
Total Liabilities	<u>110,321</u>	<u>91,422</u>
<u>NET POSITION</u>		
Invested in capital assets	254,674	290,615
Designated		
Unrestricted	4,188,799	3,694,534
Total Net Position	<u>4,443,473</u>	<u>3,985,149</u>
Total Liabilities and Net Position	<u><u>\$4,553,794</u></u>	<u><u>\$4,076,571</u></u>

The accompanying notes are an integral part of these financial statements.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Statements of Revenues, Expenses, and Changes in Net Position For the Years Ending June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>OPERATING REVENUES</u>		
Extraction charges and surcharges	\$ 1,443,882	\$1,244,013
Miscellaneous revenues	-	102
Interest and penalties on delinquent accounts	<u>12,954</u>	<u>11,391</u>
Total Operating Revenues	<u>1,456,836</u>	<u>1,255,506</u>
<u>OPERATING EXPENSES</u>		
Ventura County Public Works Agency charges	535,319	497,131
Professional specialty services	381,484	198,371
Management and administrative services	4,892	4,037
Supplies and minor equipment	2,745	823
Liability insurance	4,596	4,181
Depreciation expense	50,633	42,644
GSEAP spending	31,715	270,074
Miscellaneous	<u>1,330</u>	<u>2,923</u>
Total Operating Expenses	<u>1,012,714</u>	<u>1,020,184</u>
Operating Income	444,122	235,322
Non-Operating Revenues		
State aid - other	-	-
Interest and investment income	<u>14,202</u>	<u>13,063</u>
Total Non-Operating Revenues	<u>14,202</u>	<u>13,063</u>
Change in Net Assets	458,324	248,385
Net Position at Beginning of Year	<u>3,985,149</u>	<u>3,736,764</u>
Net Position at End of Year	<u><u>\$ 4,443,473</u></u>	<u><u>\$3,985,149</u></u>

The accompanying notes are an integral part of these financial statements.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Statements of Cash Flows June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flow from Operating Activities:		
Cash received from customers	\$1,413,251	\$1,208,180
Cash payments for operating expenses	<u>(943,180)</u>	<u>(1,005,692)</u>
Net Cash Provided by Operating Activities	<u>470,071</u>	<u>202,488</u>
Cash Flow from Noncapital Financing Activities		
Payments received on notes receivable	<u>244,738</u>	<u>141,692</u>
Cash Flow from Capital and Related Financing Activities		
Purchase of capital assets	<u>(14,692)</u>	<u>(52,580)</u>
Cash Flow from Investing Activities		
Interest on investments	<u>15,291</u>	<u>14,203</u>
Net Increase in Cash and Cash Equivalents	<u>715,408</u>	<u>305,803</u>
Cash and Cash Equivalents - Beginning of Year	3,252,758	2,946,955
Cash and Cash Equivalents - End of Year	<u><u>\$3,968,166</u></u>	<u><u>\$3,252,758</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating income	\$ 444,122	\$ 235,322
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	50,633	42,644
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(43,801)	(47,326)
Increase (decrease) in accounts payable and accrued expenses	18,901	(28,152)
Increase (decrease) in due to the County of Ventura	<u>216</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u><u>\$ 470,071</u></u>	<u><u>\$ 202,488</u></u>
Cash and Cash Equivalents		
Financial Statement Classification:		
Cash and investments	\$2,754,100	\$2,010,500
Designated cash	<u>1,214,066</u>	<u>1,242,258</u>
Total Cash and Cash Equivalents	<u><u>\$3,968,166</u></u>	<u><u>\$3,252,758</u></u>

The accompanying notes are an integral part of these financial statements.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014 and 2013

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization of the Agency

The Fox Canyon Groundwater Management Agency (the “Agency”), was created by the State of California for the preservation of groundwater resources within the territory of the Agency for agricultural, municipal and industrial uses. The Agency was approved by the Governor on September 13, 1982, under Assembly Bill No. 2995, Chapter 1023. The Agency is exempt from federal and state income taxes as a political subdivision of the State of California as described in the Health and Safety Code, Section 32000.

The Agency is an independent special district, separate from the County of Ventura or any city government. All powers of the Agency are exercised by the Board of Directors. The Board consists of five directors who represent the County of Ventura, the United Water Conservation District, the seven small water Districts within the Agency, the five incorporated cities within the Agency, and local farmers. Each Board member is appointed by his or her respective organizations or groups, except for the farmer representatives, who are appointed by the other four seated members from a list of candidates jointly supplied by the County Farm Bureau and the County Agriculture Association.

The Agency’s reporting entity includes all significant operations and revenue sources which the Agency Board of Directors exercises oversight responsibility and determined under the criteria established by the Governmental Accounting Standards Board (GASB) Statement 14, the District reports legally separate entities as blended component units if the District’s Board of Directors are financially accountable for the entities and the relationship between the District and the entities is such that in substance they are one entity. The staff of Ventura County worked for Fox Canyon Management Agency. Oversight responsibility is determined on the basis of selection of the governing board, designation of management, ability to significantly influence operations, accountability for fiscal matters, and the scope of public service.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014 and 2013

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Basis of Accounting

The Agency is accounted for as an enterprise fund in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the expenses, including depreciation, of providing goods and services to the general public are recovered through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, or other purposes. Because the Agency is accounted for as an enterprise fund, the Agency uses the economic resources measurement focus and the accrual basis of accounting for financial statement reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position.

The Agency applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. The agency has elected not to apply FASB pronouncements issued after November 30, 1989.

Cash flows from operating activities are presented using the direct method. Cash and cash equivalents are assets in cash form or in a form that can be easily converted to cash within 90 days. The Agency's cash and investments held in the Ventura County Treasury, as discussed below, are included in this definition as they are available to the agency virtually upon demand.

Statement of Net Position – The statement of net Position is designed to report the financial position of the Agency at the balance sheet date. The Agency's fund equity (net Position) shown on this statement is separated into two categories defined as follows:

- **Invested in Capital Assets** – This component of net Position consists of capital assets, net of accumulated depreciation. This category of net Position is considered non-expendable.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014 and 2013

- **NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued**

- B. Basis of Accounting - continued**

- **Unrestricted Net Position** – This component of net Position consists of net Position that do not meet the definition of “invested in capital assets,” and are not subject to constraints imposed by creditors, grantors, contributors, or laws and regulations of other governments. The Agency’s Board of Directors may designate portions of unrestricted net Position for particular purposes.

Statement of Revenues, Expenses and Changes in Net Position – The statement of revenues, expenses and changes in net Position presents the results of operations of the enterprise fund for the current period. Revenues are reported by major source. Operating revenues and expenses are presented separately from non-operating items and an operating income subtotal is presented prior to adjustment for non-operating items.

- C. Revenue Recognition**

Extraction Charges – The primary revenue source for the Agency is extraction charges that are assessed at \$4.00 per acre-foot against all well users within the geographic boundaries of the Agency. This rate has been in effect since July 1, 2005 when the per acre-foot extraction charge was increased from \$3.00 per acre-foot to \$4.00 per acre-foot. Extraction charges are recognized in the period the water is extracted based on reports received from well operators. Although some well operators fail to timely report their extractions and there is the possibility of incorrect reporting, the Agency considers unreported extraction charge revenue to be immeasurable and does not recognize it until it becomes measureable in the form of a report from the operator. The Agency imposes a \$500 civil penalty for operators who fail to report timely.

Surcharges – The intent of the surcharge is to discourage extraction of groundwater in excess of the approved allocation when that extraction will adversely affect achieving safe yield of water of any basin within the Agency. Effective January 1, 2014, surcharges are assessed using a tiered structure with a base of \$1,315 per acre-foot for all extractions in excess of approved allocations that do not qualify for irrigation efficiency; an additional \$250 per acre-foot over 25 but less than 100 acre-feet in excess of the approved allocation, and an additional \$500 per acre-foot over 100 acre-feet in excess of the approved allocation. This structure replaced the previous tiered fee surcharge of \$1,150. Surcharge fees are assessed annually as of December 31 and payable by February 1, revenue is recognized in the period when received, as the amounts are not considered reasonably estimable and are therefore not considered susceptible to accrual.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014 and 2013

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

C. Revenue Recognition - continued

Settlement Agreements – In the past, the Agency has settled pending litigation in its favor, resulting in written settlement agreements and notes receivable to the Agency. Non-operating revenue is recorded at the time of the settlement, less any discount for imputed interest on the resulting note receivable. The Agency had one outstanding note receivable of \$400,000 at June 30, 2012. \$150,000 of the outstanding balance was collected during the year ended June 30, 2013 and the remaining \$250,000 was collected during 2014.

D. Operating and Non-operating Revenues and Expenses

The Agency's primary purpose is to provide, manage, and preserve groundwater resources within its boundaries. Operating revenues are those normally recurring revenues that arise directly from accomplishing this primary purpose. Accordingly, the Agency defines operating revenues as extraction charges, interest and penalties on delinquent accounts, surcharges, and other charges. Operating expenses include those costs incurred to accomplish the Agency's primary purpose. These costs include Public Works Agency charges, professional specialty services, management and administrative expenses, insurance expense, and depreciation on capital assets. Revenues from settlements and interest and investment income are considered non-operating revenues. Non-operating revenues are any revenues not meeting the definition of operating revenues above.

E. Capital Assets

Capital assets are recorded at cost, except for capital assets contributed to the Agency, which are stated at their market value on the date contributed. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

<u>Category</u>	<u>Capitalization Level</u>	<u>Useful Life</u>
Equipment	\$5,000	2-30
Purchased Software	\$5,000	2-10
Internally-Generated Software	\$50,000	2-10

Management chooses a useful life for each asset based on the expected length of time the asset will continue to provide service to the agency.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014 and 2013

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

F. Designated Assets

By resolution of the Board of Directors, the Agency has designated certain portions of its cash and investments to be used for specific purposes. Designated cash is classified as either current or non-current on the Statement of Net Position depending on whether or not the designated use is likely to occur within one year.

G. Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

H. Implementation of New Accounting Principles

The District adopted the provisions of GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. It also identifies net position as the residual of all other elements presented in a statement of financial position, or the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. As implied above, GASB 63 changes the previous classification of net assets to net position, and consequently, the statement of net assets to the statement of net position. The District had no deferred inflows or outflows of resources as of June 30, 2014 or 2013.

NOTE 2: CASH AND INVESTMENTS

As Fox Canyon Groundwater Management Agency's Joint Powers Agreement designates its treasurer to be the Treasurer of Ventura County (a member agency), pursuant to Section 6505.5 of the California Government Code. Therefore, all cash and investments of Fox Canyon Groundwater Management Agency as of June 30, 2014 and June 30, 2013 are held in the investment pool managed by the Ventura County Treasurer. As provided for by California Government Code Section 53635, the cash balances are invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The County Treasurer invests the Agency's funds in accordance with State statutes and the County's Investment Policy Statement (IPS), as approved by the Treasury Oversight Committee and the County Board of Supervisors.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014 and 2013

NOTE 2: CASH AND INVESTMENTS - continued

The policy, drafted in accordance with state law, emphasizes safety, liquidity and yield and follows the “prudent investor rule.” Investments permitted by the IPS include obligations of the U.S. Treasury, agencies and instrumentalities, or commercial paper rated A-1 or better by Standard and Poor’s Ratings Services (S & P) or P-1 by Moody’s Commercial Paper Record, bankers’ acceptances, repurchase agreements, corporate notes, negotiable certificates of deposit, obligations of the State of California and obligations of any local agency within California. Investment earnings are allocated based on average daily balance in the Treasurer’s pool for the calendar quarter. The earnings are distributed to participants twice per quarter as cash is received, and accrued at year-end. The Investment Pool includes both voluntary and involuntary participants for whom cash and investments are held by the County Treasurer. The total percentage share of the Investment Pool related to involuntary participants is estimated at 0.33%. All investments are reported at fair value, which is either the market price or amortized cost.

Fox Canyon Groundwater Management Agency’s total cash and investments of \$3,968,166 in at June 30, 2014 and \$3,252,752 at June 30, 2013 consist of a ratable portion of the total investment pool of the County of Ventura (County). Included in these amounts are designated cash and investments of \$ 1,214,066 and \$ 1,242,258 at June 30, 2014 and 2013 respectively. These designated amounts are segregated within the County’s general ledger system, but are held with the County Treasurer as part of the overall investment pool.

Disclosures required by GASB Statement No. 40 – *Deposit and Investment Risk Disclosures* are provided in the County’s Comprehensive Annual Financial Report. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are stated at fair value. Fair value is determined based on values provided by the County’s investment advisory firm. The fair value of Fox Canyon Groundwater Management Agency’s position in the pool approximates the value of the pool shares. Realized and unrealized gains and losses are included in investment earnings. However, County investments are primarily held to maturity and only actual earnings are distributed to pool participants. Therefore, the unrealized fair value gain or loss is not available for allocation except if actually realized.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements For the Year Ended June 30, 2014 and 2013

NOTE 3: CAPITAL ASSETS

Capital assets consist of six monitoring wells that were donated to the Agency in September 1990 and the Fox Canyon Online Database system completed during the year ended June 30, 2012. The wells were depreciated over a 15 year useful life and were fully depreciated as of fiscal year 2006. The online database system was put in service on February 1, 2012 and is being amortized over seven years. Capital asset activity for the fiscal years ended June 30, 2014 and 2013 is summarized below:

	June 30, 2012	Additions	Disposals	June 30, 2013
Capital assets non-depreciable:				
Software development in Progress		\$ 52,580	-	\$ 52,580
Capital assets depreciable:				
Equipment	\$ 177,200	-	-	177,200
Software	298,443	-	-	298,433
Total historic cost	475,643	52,580	-	528,223
Less: accumulated depreciation	(194,964)	(42,644)	-	(237,608)
Net Capital Assets	<u>\$ 280,679</u>	<u>\$ 9,936</u>	<u>-</u>	<u>\$ 290,615</u>

Depreciation for the year ended June 30, 2013 of \$42,644 was charged to operations.

NOTE 3: CAPITAL ASSETS - continued

	June 30, 2013	Additions	Disposals	June 30, 2014
Capital assets non-depreciable:				
Software development in Progress	\$ 52,580	\$ 14,692	\$ (44,717)	\$ 22,555
Capital assets depreciable:				
Equipment	177,200	-	-	177,200
Software	298,433	-	44,717	343,160
Total historic cost	528,223	14,692	-	542,915
Less: accumulated depreciation	(237,608)	(50,633)	-	(288,241)
Net Capital Assets	<u>\$ 290,615</u>	<u>\$ (35,941)</u>	<u>-</u>	<u>\$ 254,674</u>

Depreciation for the year ended June 30, 2014 of \$50,633 was charged to operations.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements For the Year Ended June 30, 2014 and 2013

NOTE 4: NOTES RECEIVABLE

The Agency settled outstanding litigation with Thornhill Mutual Water Company on September 12, 2007, calling for payment of \$510,000, payable to the Agency in annual installments of no less than \$80,000, with imputed interest of \$52,806 (4.325%) over the life of the note recognized as a discount and final payment due not later than June 30, 2012. In accordance with Generally Accepted Accounting Principles, the settlement amount of \$510,000 was classified as a note receivable and discounted by a total of \$52,806 of imputed interest using an implied interest rate of 4.325 percent (the County Treasury rate for the quarter ending September 30, 2007). The note is collateralized by a letter of credit in the amount of \$430,000. This note was fully repaid during the fiscal year ended June 30, 2012.

The Agency settled outstanding litigation with Houweling Nurseries Oxnard, Inc. on April 15, 2009, calling for payment of \$1,000,000, payable to the Agency in annual installments of no less than \$150,000, with final payment due no later than April 15, 2014. In accordance with Generally Accepted Accounting Principles, the settlement amount of \$1,000,000 was classified as a note receivable and discounted by a total of \$56,139 of imputed interest using an implied interest rate of 2.15 percent (the County Treasury rate for the quarter ending June 30, 2009). The note is collateralized by a letter of credit in the amount of \$850,000. The Agency repaid this note prior to the April 15, 2014 due date.

For the years ended June 30, 2014 and 2013, a combined \$15,851 and \$21,898, respectively, of the discounts on notes receivable described above was amortized and included in interest revenue. The balance remaining of the unamortized discount was \$0 as of June 30, 2014 and \$5,262 as of June 30, 2013.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014 and 2013

NOTE 5: RISK MANAGEMENT

The Agency is primarily exposed to risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. To protect itself, the Agency contracts with the County of Ventura for legal services and maintains an errors and omissions policy in the amount of \$1,000,000 through the County of Ventura.

NOTE 6: UNRESTRICTED DESIGNATED NET POSITION

The Agency's net Position that are not invested in capital assets are all classified as unrestricted.

Currently, \$1,015,854 of net Position (unrestricted – designated net Position) is designated for groundwater extraction management enforcement activities. On June 23, 2010 the Board authorized increasing this amount to \$500,000 (plus interest earned) for fiscal year 2011. The designation remained in effect for fiscal years 2012, 2013 and 2014. The reason for the increase is to ensure sufficient funds are available for extraordinary enforcement and litigation costs that may be needed in order to resolve a specific extraordinary groundwater management problem or enforcement case.

On June 23, 2010, the Board designated \$500,000 of the Agency's net Position for the Groundwater Supply Enhancement Assistance Program (GSEAP) for fiscal year 2011. The purpose of the program is to facilitate and assist local water agencies with funds to promote groundwater supply enhancement project. As envisioned, the Agency would work cooperatively with local water agencies, identify specific project needs, and potentially fund a component of an eligible water project that promotes increased groundwater supply within the Agency. Three funded projects were competed in 2013 and one was completed in 2014. The Agency anticipates spending the remaining \$198,212 during 2014-15.

NOTE 7: RELATED PARTY TRANSACTIONS

The Agency contracts with the County of Ventura for professional specialty services. The employees of Ventura County provide professional, technical, financial, billing, administrative, clerical, and computer information services to the Agency. The Agency compensates the County of Ventura for time spent by County employees on the Agency's business and for the services provided to the Agency by the County. The Agency's total expense paid to the County of Ventura for Public Works Agency charges other than administrative services for the years ended June 30, 2014 and 2013 and the amounts due to the County of Ventura as of June 30, 2014 and 2013 are identified in the Ventura County Public Works Agency Charges expense line.

In addition to the Public Works Agency charges shown on the face of the financial statements, the Professional and Specialized Services expense line and amounts capitalized in software development include an additional \$14,642 paid to the County of Ventura in 2013-2014 and \$44,717 in 2012-2013.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014 and 2013

NOTE 7: RELATED PARTY TRANSACTIONS -continued

The Agency also contracts with the United Water Conservation District, an organization that shares a board member with the Agency, for professional hydrologist services and has made a contribution to the District's groundwater model. The Agency paid \$125,000 in 2013-2014 and \$46 in 2012-2013 to the United Water Conservation District. The Agency recognized revenue of approximately \$67,233 and \$76,190 in 2013-2014 and 2012-2013, respectively, from United Water Conservation District for groundwater extraction fees.

The Agency also recognized revenue of \$56,610 and \$63,733 in 2013-2014 and 2012-2013, respectively, from other entities sharing a Board member with the Agency, including Ventura County Waterworks Districts, the City of Camarillo, and Zone Mutual Water Company. Receivables from United Water Conservation District and other entities sharing a board member with the Agency are displayed separately on the Statement of Net Position.

NOTE 8: COMMITMENTS, CONTINGENCIES, ESTIMATES, AND CONCENTRATIONS

The Agency has nine customers United Water Conservation District, City of Oxnard, Calleguas Municipal Water District, City of Camarillo, City of San Buenventura, Victoria Nursery, Inc., Pleasant Valley County Water District, Houweling's Nurseries Oxnard, Inc., and Southland SOD Farms that make up over half of extraction charge revenues. Failure to pay by these customers could cause financial strain on the Agency.

NOTE 9: SUBSEQUENT EVENTS

In preparing the financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through May 15, 2015, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Budget vs Actual Statements of Revenues, Expenses For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>
<u>OPERATING REVENUES</u>		
Extraction charges and surcharges	\$ 1,125,000	\$ 1,443,882
Miscellaneous revenues	-	-
Interest and penalties on delinquent accounts	-	12,954
Total Operating Revenues	<u>1,125,000</u>	<u>1,456,836</u>
<u>OPERATING EXPENSES</u>		
Ventura County Public Works Agency charges	703,820	535,319
Professional specialty services	360,500	381,484
Management and administrative services	6,850	4,892
Supplies and minor equipment	19,600	2,745
Liability insurance	4,200	4,596
Depreciation expense	-	50,633
GSEAP spending	201,250	31,715
Miscellaneous	5,000	1,330
Total Operating Expenses	<u>1,301,220</u>	<u>1,012,714</u>
Operating Income	(176,220)	444,122
Non-Operating Revenues		
State aid - other	-	-
Interest and investment income	15,000	14,202
Total Non-Operating Revenues	<u>15,000</u>	<u>14,202</u>
Change in Net Assets	<u>\$ (161,220)</u>	<u>\$ 458,324</u>

See Independent Auditor's Report

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Budget vs Actual Statements of Revenues, Expenses For the Years Ending Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>
<u>OPERATING REVENUES</u>		
Extraction charges and surcharges	\$ 1,020,000	\$ 1,244,013
Miscellaneous revenues	-	102
Interest and penalties on delinquent accounts	-	11,391
Total Operating Revenues	<u>1,020,000</u>	<u>1,255,506</u>
<u>OPERATING EXPENSES</u>		
Ventura County Public Works Agency charges	726,000	497,131
Professional specialty services	267,026	198,371
Management and administrative services	6,850	4,037
Supplies and minor equipment	49,000	823
Liability insurance	4,000	4,181
Depreciation expense	-	42,644
GSEAP spending	500,000	270,074
Miscellaneous	5,000	2,923
Total Operating Expenses	<u>1,557,876</u>	<u>1,020,184</u>
Operating Income	(537,876)	235,322
Non-Operating Revenues		
State aid - other	-	-
Interest and investment income	<u>15,000</u>	<u>13,063</u>
Total Non-Operating Revenues	<u>15,000</u>	<u>13,063</u>
Change in Net Assets	<u>\$ (522,876)</u>	<u>\$ 248,385</u>

See Independent Auditor's Report

OTHER REPORT

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

The Honorable Board of Directors of the
Fox Canyon Groundwater Management Agency
Ventura, California

We have audited the accompanying basic financial statements of the Fox Canyon Groundwater Management Agency (the "Agency"), as of June 30, 2014 and for the years then ended and have issued our report thereon dated May 15, 2015. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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.

The Honorable Board of Directors of the
Fox Canyon Groundwater Management Agency

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of 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*.

The Agency's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Fechter & Company
Certified Public Accountants


Sacramento, California
May 15, 2015

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Schedule of Findings and Responses June 30, 2014

Finding 2012-1: Irrigation Efficiency Exemptions from Penalties Criteria

The Agency's policies require that a surcharge be assessed against well operators who extract water in excess of their historical allocations, except in certain circumstances. Well operators can qualify for an exemption to surcharge by submitting an application showing they have achieved a measure of irrigation efficiency. Under Ordinance 8.4, Section 5.6.1.2.2, applications for irrigation efficiency are due by February 1 of each year unless extended by the Board of Directors.

Condition

In our analysis of extraction data, we identified 18 CombCodes where the well operators had pumped water in excess of their historical allocation, accumulated credits, and baseline credits and had not, at the time of the initial analysis, been flagged in the system as having been approved for an irrigation efficiency exemption. Payment of surcharges had been received on 1 of these 18 CombCodes. Since the time when the initial analysis was performed, irrigation efficiency was approved for 5 of the 17 CombCodes with unpaid surcharges, leaving 12 CombCodes with unpaid surcharges and without approved irrigation efficiency. Management has stated they are in the process of following up with the operators with larger amounts of surcharges potentially due if no irrigation efficiency is claimed.

Cause

It appears surcharges are not immediately billed to well operators who extract in excess of the historical allocations as it is unclear whether those operators will file for irrigation efficiency or not.

Effect or Potential Effect

Without proper identification of well operators who do have irrigation efficiency exemptions, surcharges could be inadequately applied. In addition, lack of timely collection of penalties and surcharges could make collection more difficult in the future.

Status

The prior auditors recommended that operators with potential surcharges be contacted soon after the deadline for irrigation efficiency filing so that surcharges can be assessed if the operators do not qualify. They further recommended that the Board of Directors clarify whether the past policy of granting extensions of time to file for irrigation efficiency will be continued.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Schedule of Findings and Responses June 30, 2014

Finding 2012-1: Irrigation Efficiency Exemptions from Penalties (continued)

Views of Responsible Officials and Planned Corrective Actions

The Agency's current workflow process only determines if there is a failure to file an irrigation efficiency application after staff keys in the last half of the year's extraction data (typically Feb-April). If we determine a surcharge is due, but an irrigation efficiency application was not filed but normally would have been, we contact the operator. This follow up can sometimes take several weeks depending on work and Board directed priorities. Our experience is that most of these issues can be resolved within several months. The fiscal impact is very limited, in that: 1) Agency does not rely on this revenue to support its core operations, and 2) penalties are likely recovered within the same fiscal year.

Finding 2012-2: Capitalization of Software Criteria

GASB Statement 51 provides for the recording of customized software as a capital asset if the software development proceeds past the preliminary project stage and management has committed to funding the project.

Condition

In the 2009-2010 fiscal year, the Agency contracted with the County of Ventura Information Technology Department to produce a customized online database that would track groundwater extraction and financial data related to the Agency. The database was placed into service during the 2011-2012 fiscal year. Initially, the costs associated with the project were expensed as incurred. We discussed the matter with management and management agreed to capitalize the development costs meeting the criteria established in GASB 51 in the total amount of \$298,443.

Cause

Software development is an unusual activity for the entity and it appears capitalization of the costs was inadvertently omitted.

Effect or Potential Effect

Because software provides benefits over several future years, recognizing all of the expenses at the time of development rather than capitalizing the software and amortizing it over its estimated useful life can result in an overstatement of expenses at the time of development and an understatement of expenses as the software is being used.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Schedule of Findings and Responses June 30, 2014

Finding 2012-2: Capitalization of Software (continued)

Recommendation

The prior auditor recommended capitalization of the software and management prepared the appropriate adjusting journal entries. We recommend that the Agency's operations be evaluated each year in light of new accounting standards to ensure unusual activities or those covered by new accounting standards are correctly reported.

Status

The Agency fully implemented this recommendation.