

**FOX CANYON GROUNDWATER
MANAGEMENT AGENCY**

**BIENNIAL FINANCIAL REPORT
With Independent Auditor's Report Thereon**

**FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015**

**FOX CANYON GROUNDWATER
MANAGEMENT AGENCY**

Biennial Financial Report
For the Years Ended
June 30, 2016 and 2015

Table of Contents

Independent Auditor's Report.....	1
Management's Discussion & Analysis.....	3
Basic Financial Statements:	
Statements of Net Position	12
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flows.....	14
Notes to the Basic Financial Statements.....	15
Required Supplementary Information:	
Revenues and Expenditures - Budget vs Actual Year Ended June 30, 2016.....	25
Revenues and Expenditures - Budget vs Actual Year Ended June 30, 2015.....	26
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 <i>Government Auditing Standards</i>	27

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, 2016 and 2015, 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, 2016 and 2015, 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 25-26 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

Fechter & Company

Sacramento, California
April 4, 2017

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2016 and 2015

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, 2016 and 2015. 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, 2016 and 2015

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 12 thru 14 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 15 of this report.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2016

- Agency assets at June 30, 2016 exceeded liabilities by \$5,866,019. Of this amount \$150,858 is classified as Invested in Capital Assets (this represents the Agency's investment in capital assets net of accumulated depreciation); \$4,196,080 is classified as *Unrestricted* and may be used to meet ongoing obligations of the Agency. \$1,519,081 is considered *Designated*, for groundwater extraction management enforcement surcharges (GEMES).
- Operating revenues for 2016 were \$1,072,402 higher than 2015, a 76% increase.
- Total expenses for 2016 were \$342,793 than 2015, a 31% increase.

Year Ended June 30, 2015

- Agency assets at June 30, 2015 exceeded liabilities by \$4,782,698. Of this amount \$202,766 is classified as Invested in Capital Assets (this represents the Agency's investment in capital assets net of accumulated depreciation); \$3,560,851 is classified as *Unrestricted* and may be used to meet ongoing obligations of the Agency. \$1,019,081 is considered *Designated*, for groundwater extraction management enforcement surcharges (GEMES).
- Operating revenues for 2015 were \$48,986 lower than 2014, a 3% decrease.
- Total expenses for 2015 were \$76,237 higher than 2014, an 8% 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 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, 2016 and 2015

FINANCIAL ANALYSIS

Revenues Extraction Charges:

The primary revenue source for the Agency is extraction charges that are assessed at \$6.00 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 \$1,315 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, 2016, 2015 and 2014:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Fee per acre foot	\$6.00	\$6.00	\$ 4.00
Acre feet pumped	153,539	134,730	143,956
Extraction Revenue	\$ 921,234	\$ 808,385	\$ 575,824
Surcharge revenue	\$ 726,503	\$ 130,315	\$ 868,057

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, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Interest earned from Ventura County	\$ 26,883	\$ 14,221	\$ 8,940
Interest earned other	7,300	3,226	5,262
Total interest earned	<u>\$ 34,183</u>	<u>\$ 17,447</u>	<u>\$ 14,202</u>

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2016 and 2015

Table 1 below provides a comparison of the Agency's Statements of Net Position at June 30, 2016, 2015 and 2014 in a condensed format:

Table 1
Condensed Statements of Net Position
June 30, 2016, 2015 and 2014

	2016	2015	2014
Assets			
Current assets	\$ 5,886,271	\$ 4,669,479	\$ 4,299,120
Capital assets	150,858	202,766	254,674
Total Assets	\$ 6,037,129	\$ 4,872,245	\$ 4,553,794
Liabilities			
Current Liabilities	\$ 171,110	\$ 89,547	\$ 110,321
Net position			
Invested in capital assets	150,858	202,766	254,674
Designated	1,519,081	1,019,081	-
Unrestricted	4,196,080	3,560,851	4,188,799
Total Net Position	\$ 5,866,019	\$ 4,782,698	\$ 4,443,473

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2016 and 2015

Table 2 below provides the results of the Agency's financial activities as of June 30, 2016, 2015 and 2014 and the impact on Net Position.

Table 2
Changes in Net Position
June 30, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues:			
Extraction charges and surcharges	\$ 2,129,739	\$ 1,373,904	\$ 1,443,882
Penalties	75,969	33,946	12,954
Sustainability fee	274,544	-	-
	<u>2,480,252</u>	<u>1,407,850</u>	<u>1,456,836</u>
Non-Operating Revenues:			
Interest earnings	34,183	17,447	14,202
Other non-operating	630	2,879	-
Total Revenues	<u>2,515,065</u>	<u>1,428,176</u>	<u>1,471,038</u>
Program Expenses:			
General government	1,431,744	1,088,951	1,012,714
	<u>1,431,744</u>	<u>1,088,951</u>	<u>1,012,714</u>
Increase in Net Position	<u><u>\$ 1,083,321</u></u>	<u><u>\$ 339,225</u></u>	<u><u>\$ 458,324</u></u>

As the table shows, for 2016, the Agency's revenue exceeded its expenses by \$1,083,321 which resulted in a corresponding increase the Agency's Net Position. This compares favorably with the \$339,225 and \$458,324 experienced in 2015 and 2014, respectively. The increase was primarily due to a bettering economy and the implementation of a new surcharge.

2016 operating revenues of \$2,480,252 reflect an increase of \$ 1,072,402 over 2015 revenue of \$1,407,850 which was a \$48,986 decrease from the 2014 amount of \$1,456,836. 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, 2016 and 2015

On the expense side, General Government activities increased by \$342,793 in 2016 from the 2015 amount of \$1,088,951 which was a \$76,237 increase over 2014. 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 2016.

Table 3a
Final Budgets versus Actual Results
Year Ended June 30, 2016

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Extraction charges and surcharges	\$ 1,000,000	\$ 2,206,338	\$ 1,206,338
GSP Grant	250,000	-	(250,000)
Groundwater sustainability fee	-	274,544	274,544
Interest	10,000	34,183	24,183
Total Revenues	1,260,000	2,515,065	1,255,065
Expenses:	2,279,740	1,431,744	847,996
Excess expenses over revenues	\$ (1,019,740)	\$ 1,083,321	\$ 2,103,061

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, 2016. The District's Board has established a designated reserve of \$1,000,000 and a designated surcharge reserve of \$100,000.

The positive revenue variance of \$1,255,065 is primarily attributable to the new sustainability surcharge revenue exceeding the budget. In addition, surcharges exceed budgeted amounts primarily from over-pumping by Houweling's Nurseries.

On the expense side, the positive variance of \$847,996 is attributable to the following:

- Groundwater Sustainability Plan Development budgeted services not completed in FY 2016; work will continue into FY 2017.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2016 and 2015

Table 3b presents the Agency's final budget and actual results for fiscal year 2015.

Table 3b
Final Budgets versus Actual Results
Year Ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Extraction charges and surcharges	\$ 1,250,000	\$ 1,407,850	\$ 157,850
Interest	15,000	20,326	5,326
Total Revenues	<u>1,265,000</u>	<u>1,428,176</u>	<u>163,176</u>
Expenses:	<u>1,197,730</u>	<u>1,088,951</u>	<u>108,779</u>
Excess expenses over revenues	<u>\$ 67,270</u>	<u>\$ 339,225</u>	<u>\$ 271,955</u>

The positive revenue variance of \$163,176 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 \$108,779 can be attributed to the following budgeted services not being performed during fiscal year 2015:

- Groundwater Management Plan, Enhanced Meter Well Inspection and digitization of the Agency's records.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Management's Discussion and Analysis June 30, 2016 and 2015

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

Table 3c
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>

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, 2016 and 2015

FUTURE ACTIONS

1. On September 23, 2015 Fox Canyon Groundwater Management Agency (the Agency) approved Resolution No. 2016-03; that effective July 1, 2016, for Municipal and Industrial Operators and August 1, 2016, for Agricultural Operators, a groundwater sustainability fee of six dollars and fifty cents (\$6.50) per acre-foot shall be imposed on groundwater extractions from facilities with the boundaries of the Fox Canyon Groundwater Management Agency. This fee shall not be imposed on any person who extracts, for domestic purpose, two (2) acre-feet per year or less.

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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and investments	\$2,975,061	\$2,759,726
Designated cash - GEMES	1,519,081	1,019,081
Due from the County of Ventura	3,388	8,210
Accounts receivable	1,380,969	880,932
Interest receivable	7,772	1,530
Notes receivable, net of unamortized discount, current portion	-	-
Total Current Assets	<u>5,886,271</u>	<u>4,669,479</u>
NON-CURRENT ASSETS		
Fixed assets, net of accumulated depreciation	150,858	202,766
Note receivable, net of unamortized discount	-	-
Total Non-Current Assets	<u>150,858</u>	<u>202,766</u>
Total Assets	<u><u>\$6,037,129</u></u>	<u><u>\$4,872,245</u></u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 171,110	\$ 89,547
Due to County of Ventura	-	-
Total Current Liabilities	<u>171,110</u>	<u>89,547</u>
Total Liabilities	<u>171,110</u>	<u>89,547</u>
<u>NET POSITION</u>		
Invested in capital assets	150,858	202,766
Designated	1,519,081	1,019,081
Unrestricted	4,196,080	3,560,851
Total Net Position	<u>5,866,019</u>	<u>4,782,698</u>
Total Liabilities and Net Position	<u><u>\$6,037,129</u></u>	<u><u>\$4,872,245</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>OPERATING REVENUES</u>		
Extraction charges and surcharges	\$ 2,129,739	\$1,373,904
Groundwater sustainability fee	274,544	-
Interest and penalties on delinquent accounts	<u>75,969</u>	<u>33,946</u>
Total Operating Revenues	<u>2,480,252</u>	<u>1,407,850</u>
<u>OPERATING EXPENSES</u>		
Ventura County Public Works Agency charges	735,831	645,975
Professional specialty services	603,816	227,410
Management and administrative services	19,580	7,197
Supplies and minor equipment	300	600
Liability insurance	4,707	4,498
Depreciation expense	51,908	51,908
GSEAP spending	-	148,269
Miscellaneous	<u>15,602</u>	<u>3,094</u>
Total Operating Expenses	<u>1,431,744</u>	<u>1,088,951</u>
Operating Income	1,048,508	318,899
Non-Operating Revenues		
State aid - other	630	2,879
Interest and investment income	<u>34,183</u>	<u>17,447</u>
Total Non-Operating Revenues	<u>34,813</u>	<u>20,326</u>
Change in Net Assets	1,083,321	339,225
Net Position at Beginning of Year	<u>4,782,698</u>	<u>4,443,473</u>
Net Position at End of Year	<u><u>\$ 5,866,019</u></u>	<u><u>\$4,782,698</u></u>

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

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Statements of Cash Flows

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flow from Operating Activities:		
Cash received from customers	\$1,973,975	\$ 854,524
Cash payments for operating expenses	<u>(1,292,031)</u>	<u>(1,065,195)</u>
Net Cash Provided by Operating Activities	<u>681,944</u>	<u>(210,671)</u>
Cash Flow from Noncapital Financing Activities		
Payments received on notes receivable	<u>-</u>	<u>-</u>
Cash Flow from Capital and Related Financing Activities		
Purchase of capital assets	<u>-</u>	<u>-</u>
Cash Flow from Investing Activities		
Interest on investments	<u>33,391</u>	<u>21,312</u>
Net Increase (decrease) in Cash and Cash Equivalents	<u>715,335</u>	<u>(189,359)</u>
Cash and Cash Equivalents - Beginning of Year	3,778,807	3,968,166
Cash and Cash Equivalents - End of Year	<u><u>\$4,494,142</u></u>	<u><u>\$3,778,807</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating income	\$1,048,508	\$ 318,899
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	51,908	51,908
Change in assets and liabilities		
(Increase) in accounts receivable	(500,037)	(553,326)
Increase (decrease) in accounts payable and accrued expenses	81,565	(28,152)
Increase (decrease) in due to the County of Ventura	<u>-</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u><u>\$ 681,944</u></u>	<u><u>\$ (210,671)</u></u>
Cash and Cash Equivalents		
Financial Statement Classification:		
Cash and investments	\$2,975,061	\$2,759,726
Designated cash	<u>1,519,081</u>	<u>1,019,081</u>
Total Cash and Cash Equivalents	<u><u>\$4,494,142</u></u>	<u><u>\$3,778,807</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, 2016 and 2015

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, 2016 and 2015

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, 2016 and 2015

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 \$6.00 per acre-foot against all well users within the geographic boundaries of the Agency. This rate has been in effect since July 1, 2014 when the per acre-foot extraction charge was increased from \$4.00 per acre-foot to \$6.00 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 measurable 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, 2016 and 2015

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

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, 2016 and 2015

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, 2016 or 2015.

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, 2016 and June 30, 2015 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, 2016 and 2015

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 \$ 4,494,142 in at June 30, 2016 and \$ 3,778,807 at June 30, 2015 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 \$ 1,519,081 and \$ 1,019,081 at June 30, 2016 and 2015 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, 2016 and 2015

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2016 and 2015:

Pumping charges receivable	\$ 356,663	\$ 356,845
Surcharge fees receivable	785,412	785,412
Sustainability fees receivable	<u>238,894</u>	<u>-</u>
Total accounts receivable	\$ <u>1,380,969</u>	\$ <u>880,932</u>

In 2015, the District assessed a groundwater sustainability fee to fund the cost of a groundwater sustainability program.

NOTE 4: 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, 2015 and 2016 is summarized below:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2015</u>
Capital assets non-depreciable:				
Software development in progress	\$ 22,555	\$ (22,555)	\$ -	\$ -
Capital assets depreciable:				
Equipment	177,200	7,863	-	185,063
Software	<u>343,160</u>	<u>14,692</u>	<u>-</u>	<u>357,852</u>
Total historic cost	542,915	-	-	542,915
Less: accumulated depreciation	<u>(288,241)</u>	<u>(51,908)</u>	<u>-</u>	<u>(240,149)</u>
Net Capital Assets	\$ <u>254,674</u>	\$ <u>(51,908)</u>	\$ <u>-</u>	\$ <u>202,766</u>

Depreciation for the year ended June 30, 2015 of \$51,908 was charged to operations.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements For the Year Ended June 30, 2016 and 2015

NOTE 4: CAPITAL ASSETS (continued)

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2016</u>
Capital assets non-depreciable:				
Software development in Progress	\$ -	\$ -	\$ -	\$ -
Capital assets depreciable:				
Equipment	185,063	-	-	185,063
Software	<u>357,852</u>	<u>-</u>	<u>-</u>	<u>357,852</u>
Total historic cost	542,915	-	-	542,915
Less: accumulated depreciation	<u>(340,149)</u>	<u>(51,908)</u>	<u>-</u>	<u>(392,057)</u>
Net Capital Assets	<u>\$ 202,766</u>	<u>\$ (51,908)</u>	<u>\$ -</u>	<u>\$ 150,858</u>

Depreciation for the year ended June 30, 2016 of \$51,908 was charged to operations.

NOTE 6: 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 7: UNRESTRICTED DESIGNATED NET POSITION

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

Currently, \$ 1,519,081 of net position (unrestricted – designated net Position) is designated for groundwater extraction management enforcement surcharges activities. On June 23, 2016 the Board authorized increasing this amount an additional \$500,000 (plus interest earned) for fiscal year 2016. The designation remained in effect for fiscal years 2014, 2015 and 2016. 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

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements For the Year Ended June 30, 2016 and 2015

NOTE 7: UNRESTRICTED DESIGNATED NET POSITION (continued)

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. The Agency's final payment of \$138,371 was made to City of Camarillo during 2014-2015.

NOTE 8: 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, 2016 and 2015 and the amounts due to the County of Ventura as of June 30, 2016 and 2015 are identified in the Ventura County Public Works Agency Charges expense line.

The Agency recognized revenue of approximately \$ 85,466 and \$132,973 in 2015-2016 and 2014-2015, respectively, from United Water Conservation District for groundwater extraction fees.

The Agency also recognized revenue of \$ 69,736 and \$ 66,465 in 2015-2016 and 2014-2015, 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 9: 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.

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Notes to the Basic Financial Statements For the Year Ended June 30, 2016 and 2015

NOTE 10: SUBSEQUENT EVENTS

In preparing the financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through April 13, 2017, 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 Years Ending****Year Ended June 30, 2016**

	<u>Budget</u>	<u>Actual</u>
<u>OPERATING REVENUES</u>		
Extraction charges and surcharges	\$ 1,000,000	\$ 2,129,739
Groundwater sustainability fee	-	274,544
Groundwater sustainability plan grant	250,000	-
Interest and penalties on delinquent accounts	-	75,969
	<u>1,250,000</u>	<u>2,480,252</u>
<u>OPERATING EXPENSES</u>		
Ventura County Public Works Agency charges	931,540	735,831
Professional specialty services	1,293,000	603,816
Management and administrative services	32,000	19,580
Supplies and minor equipment	5,200	300
Liability insurance	5,000	4,708
Depreciation expense	-	51,907
GSEAP spending	-	-
Miscellaneous	13,000	15,602
	<u>2,279,740</u>	<u>1,431,744</u>
Total Operating Expenses		
	<u>2,279,740</u>	<u>1,431,744</u>
Operating Income	(1,029,740)	1,048,508
<u>Non-Operating Revenues</u>		
State aid - other	-	630
Interest and investment income	10,000	34,183
	<u>10,000</u>	<u>34,813</u>
Total Non-Operating Revenues		
	<u>10,000</u>	<u>34,813</u>
Change in Net Assets	<u>\$ (1,019,740)</u>	<u>\$ 1,083,321</u>

See Independent Auditor's Report

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

Budget vs Actual Statements of Revenues, Expenses For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>
<u>OPERATING REVENUES</u>		
Extraction charges and surcharges	\$ 1,250,000	\$ 1,373,904
Groundwater sustainability plan grant	-	-
Interest and penalties on delinquent accounts	-	33,946
Total Operating Revenues	<u>1,250,000</u>	<u>1,407,850</u>
<u>OPERATING EXPENSES</u>		
Ventura County Public Works Agency charges	701,530	645,975
Professional specialty services	207,500	227,410
Management and administrative services	193,000	7,197
Supplies and minor equipment	15,000	600
Liability insurance	5,000	4,498
Depreciation expense	-	51,908
GSEAP spending	71,500	148,269
Miscellaneous	4,200	3,094
Total Operating Expenses	<u>1,197,730</u>	<u>1,088,951</u>
Operating Income	52,270	318,899
Non-Operating Revenues		
State aid - other	-	2,879
Interest and investment income	<u>15,000</u>	<u>17,447</u>
Total Non-Operating Revenues	<u>15,000</u>	<u>20,326</u>
Change in Net Assets	<u>\$ 67,270</u>	<u>\$ 339,225</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, 2016 and for the years then ended and have issued our report thereon dated April 4, 2017. 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*.

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

Fechter & Company

Sacramento, California
April 4, 2017