Fox Canyon Groundwater Management Agency

Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

Fox Canyon Groundwater Management Agency

Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

Fox Canyon Groundwater Management Agency

Board of Directors as of June 30, 2018

Name	Title	Elected/ Appointed	Current Term
Eugene F. West	Chair	Appointed	02/2017 - 02/2019
David Borchard	Vice Chair	Appointed	02/2018 - 02/2020
Charlotte Craven	Director	Appointed	02/2018 - 02/2020
Robert Eranio	Director	Appointed	02/2017 - 02/2019
Steve Bennett	Director	Appointed	02/2017 - 02/2019

Fox Canyon Groundwater Management Agency
Jeff Pratt, P.E, Executive Officer
800 South Victoria Avenue
Ventura, California 93009
(805) 654-2014

Fox Canyon Groundwater Management Agency

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Board of Directors
Fox Canyon Groundwater Management Agency

Introduction

It is our pleasure to submit the Annual Financial Report for the Fox Canyon Groundwater Management Agency for the fiscal years ended June 30, 2018 and 2017, following guidelines set forth by the Governmental Accounting Standards Board. Agency staff prepared this financial report. The Agency is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the Agency's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the Agency's organization and current Agency activities, and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the Agency's basic financial statements, and the Agency's audited basic financial statements with accompanying notes.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Agency's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The Fox Canyon Groundwater Management 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 overdraft 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 interest of the public and for the common benefit of all water users.

The Agency is governed by a five-member Board of Directors. 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. The Agency's Board of Directors meets each month. Meetings are publicly noticed and citizens are encouraged to attend.

District Services

The Fox Canyon aquifer accounts for more than half of the water needs for 700,000 residents in the cities of Ventura, Oxnard, Port Hueneme, Camarillo and Moorpark, plus the unincorporated communities of Saticoy, El Rio, Somis, Moorpark Home Acres, Point Mugu and Montalvo.

Internal Control Structure

Agency management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the Agency are protected from loss, theft, or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Agency's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits require estimates and judgments by management.

Budgetary Control

The Agency Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the Agency's enterprise operations and capital projects. The budget and reporting treatment applied to the Agency is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, Agency ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity, and yield. All cash and investments of the Agency are held in the investment pool managed by the Ventura County Treasurer.

Agency Revenues – Extraction Charges and Surcharges

The primary revenue source for the Agency is extraction charges that are assessed at $6.00 per acre-foot, and a sustainability fee assessed at $6.50 per acre-foot against all well owners within the geographic boundaries of the Agency. In addition, the Agency places a surcharge for 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 $1,461 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.

Audit and Financial Reporting

State Law requires the Agency to obtain a biennial audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the Agency's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of Agency staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the Agency. We would also like to thank the members of the Board of Directors for their continued support in planning and implementation of the Fox Canyon Groundwater Management Agency's fiscal policies.

Respectfully submitted,

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Jeff Pratt, P.E.,
Executive Officer

Financial Section

Fedak & Brown LLP
Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Fox Canyon Groundwater Management Agency
Ventura, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Fox Canyon Groundwater Management Agency (the Agency) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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; and the State Controller's Minimum Audit Requirements for California Special District's. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fox Canyon Groundwater Management Agency, as of June 30, 2018 and 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 6 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section on pages 1 through 3, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance. This report can be found on pages 23 and 24.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
June 20, 2019

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Fox Canyon Groundwater Management Agency (the Agency) provide an introduction to the financial statements of the Agency for the fiscal years ended June 30, 2018, and 2017. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2018, the Agency's net position decreased 1.36% or $83,577 to $6,042,088. In comparison, the Agency's net position increased by 4.43% or $259,646 to $6,125,665 during fiscal year 2017.
- In fiscal year 2018, the Agency's total operating revenues increased 10.98% or $248,539 to $2,512,451. The Agency's total revenues total operating revenues decreased 8.72% or $216,340 to $2,263,912 in fiscal year 2017.
- In fiscal year 2018, the Agency's total non-operating revenues decreased 24.89% or $51,432 to $155,219. In fiscal year 2017, the Agency's total non-operating revenues increased 493.60% or $171,838 to $206,651.
- In fiscal year 2018, the Agency's total expenses increased 24.44% or $540,330 to $2,751,247. In fiscal year 2017, the Agency's total expenses increased 54.42% or $779,173 to $2,210,917.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows provide information about the activities and performance of the Agency using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the Agency's investments in resources (assets), the obligations to creditors (liabilities). They also provide the basis for computing a rate of return, evaluating the capital structure of the Agency, and assessing the liquidity and financial flexibility of the Agency. All of the years' revenue and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. These statements measure the success of the Agency's operations over the past year and can be used to determine if the Agency has successfully recovered all of its costs through its rates and other charges. These statements can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provide information about the Agency's cash receipts and cash payments during the reporting period. The Statement of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the Agency

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Agency in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the *accrual basis of accounting,* which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Financial Analysis of the Agency, continued

These two statements report the Agency's *net position* and changes in them. One can think of the Agency's net position (the difference between assets and deferred outflows, and liabilities and deferred inflows), as one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

Revenues Extraction Charges:

The primary revenue source for the Agency is the 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 $1,461 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, 2018, 2017 and 2016:

		June 30, 2018	June 30, 2017	June 30, 2016
Fees per acre foot	$	6.00	6.00	6.00
Acre feet pumped		133,038	134,147	153,539
Extraction Revenue		804,028	795,044	921,234
Surcharge Revenue		950,398	1,316,467	726,503

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 15 through 22.

Statements of Net Position

Condensed Statements of Net Position

		2018	2017	Change	2016	Change
Assets:						
Current assets	$	6,107,390	6,122,380	(14,990)	5,886,271	236,109
Capital assets, net		47,614	99,522	(51,908)	150,858	(51,336)
Total assets		6,155,004	6,221,902	(66,898)	6,037,129	184,773
Liabilities:						
Current liabilities		112,916	96,237	16,679	171,110	(74,873)
Total liabilities		112,916	96,237	16,679	171,110	(74,873)
Net position:						
Net investment in capital assets		47,614	99,522	(51,908)	150,858	(51,336)
Unrestricted		5,994,474	6,026,143	(31,669)	5,715,161	310,982
Total net position	$	6,042,088	6,125,665	(83,577)	5,866,019	259,646

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets of the Agency exceeded liabilities by $6,042,088 as of June 30, 2018 and $6,125,665 as of June 30, 2017.

By far the largest portion of the Agency's net position (99.21% as of June 30, 2018 and 98.38% as of June 30, 2017) reflects the Agency's unrestricted component (net amount of the assets and liabilities), that are not included in the determination of the net investment in capital assets or restricted component of net position. The Agency uses these unrestricted assets to provide funding for future Agency operations.

At the end of fiscal year 2018 and 2017, the Agency showed a positive balance in its unrestricted net position of $5,994,474 and $6,026,143, respectively.

Statements of Revenues, Expenses, and Changes in Net Position

		2018	2017	Change	2016	Change
Revenues:						
Operating revenues	$	2,512,451	2,263,912	248,539	2,480,252	(216,340)
Non-operating revenues		155,219	206,651	(51,432)	34,813	171,838
Total revenues		2,667,670	2,470,563	197,107	2,515,065	(44,502)
Expenses:						
Operating expenses		2,699,339	2,135,283	564,056	1,379,836	755,447
Depreciation		51,908	75,634	(23,726)	51,908	23,726
Total expenses		2,751,247	2,210,917	540,330	1,431,744	779,173
Net position before capital contributions		(83,577)	259,646	(343,223)	1,083,321	(823,675)
Changes in net position		(83,577)	259,646	(343,223)	1,083,321	(823,675)
Net position, beginning of year		6,125,665	5,866,019	259,646	4,782,698	1,083,321
						-
Net position, end of year	$	6,042,088	6,125,665	(83,577)	5,866,019	259,646

The statements of revenues, expenses, and changes in net position show how the Agency's net position changed during the fiscal year.

A closer examination of the sources of changes in net position reveals that:

In fiscal year 2018, the Agency's net position decreased 1.36% or $83,577 to $6,042,088, as a result of ongoing operations. In fiscal year 2017, the Agency's net position increased 4.43% or $259,646 to $6,125,665 as a result of ongoing operations.

In fiscal year 2018, the Agency's total operating revenues increased 10.98% or $248,539, primarily due to more extraction charges revenue. In 2017, total operating revenues decreased 8.72% or $216,340, primarily due to receiving less extraction charges revenue.

In fiscal year 2018, the Agency's total non-operating revenues decreased 24.89% or $51,432 to $155,219, primarily due to a $55,652 increase in interest earnings which was offset by a $107,084 decrease in other income. In fiscal year 2017, the Agency's total non-operating revenues increased 493.60% or $171,838 to $206,651, primarily due to a $171,662 increase in other income.

Statements of Revenues, Expenses, and Changes in Net Position, continued

In fiscal year 2018, the Agency's total expenses increased 24.44% or $540,330, due primarily to increases of $348,381 in Ventura County Public Works Agency charges, $201,696 increase in professional services, $21,944 increase in office supplies and equipment, and a $9,628 increase in miscellaneous expense; which were offset by a $17,614 decrease in management and administrative services and a $23,726 decrease in depreciation expense. In fiscal year 2017, the Agency's total expenses increased 54.42% or $779,173, due primarily to operating expenses which includes a $664,905 increase in professional services, $100,889 increase in Ventura County Public Works Agency charges, $23,726 increase in depreciation expense, and a $5,979 increase in office supplies and equipment; offset by a $13,615 decrease in management and administrative services.

Capital Asset Administration

Changes in capital assets for 2018 were as follows:

	Balance 2017	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Capital assets:				
Depreciable assets	$ 542,915	-	-	542,915
Accumulated depreciation	(443,393)	(51,908)	-	(495,301)
Total capital assets, net	$ 99,522	(51,908)	-	47,614

Changes in capital assets for 2017 were as follows:

	Balance 2016	Additions/ Transfers	Transfers/ Deletions	Balance 2017
Capital assets:				
Depreciable assets	$ 518,617	24,298	-	542,915
Accumulated depreciation	(367,759)	(75,634)	-	(443,393)
Total capital assets, net	$ 150,858	(51,336)	-	99,522

At the end of fiscal year 2018 and 2017, the Agency's investment in capital assets amounted to $47,614 and $99,522 (net of accumulated depreciation), respectively. This investment in capital assets includes equipment and software.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the Agency's current financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the Agency's funding sources, customers, stakeholders, and other interested parties with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Fox Canyon Groundwater Management Agency at 800 South Victoria Avenue, Ventura, CA 93009-1600.

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Basic Financial Statements

Fox Canyon Groundwater Management Agency
Statements of Net Position
June 30, 2018 and 2017

		2018	2017
Current assets:			
Cash and investments (note 2)	$	5,427,891	5,327,399
Due from the County of Ventura		1,680	5,744
Accounts receivable (note 3)		645,343	775,822
Interest receivable		32,476	13,415
Total current assets		6,107,390	6,122,380
Non-current assets:			
Fixed assets, net of accumulated depreciation (note 4)		47,614	99,522
Total non-current assets		47,614	99,522
Total assets		6,155,004	6,221,902
Current liabilities:			
Accounts payable and accrued expenses		106,366	72,199
Due to County of Ventura		6,550	24,038
Total current liabilities		112,916	96,237
Total liabilities		112,916	96,237
Net position:			
Net investment in capital assets		47,614	99,522
Unrestricted		5,994,474	6,026,143
Total net position	$	6,042,088	6,125,665

See accompanying notes to the basic financial statements

Fox Canyon Groundwater Management Agency
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017

		2018	2017
Operating revenues:			
Extraction charges and surcharges	$	2,512,451	2,263,912
Total operating revenues		2,512,451	2,263,912
Operating expenses:			
Ventura County Public Works charges		1,185,101	836,721
Professional Services		1,470,416	1,268,720
Office supplies and equipment		28,223	6,278
Insurance		3,844	3,819
General and administrative		-	17,614
Miscellaneous expenses		11,755	2,131
Total operating expenses		2,699,339	2,135,283
Operating income before depreciation and amortization		(186,888)	128,629
Depreciation		(51,908)	(75,634)
Operating (loss) income		(238,796)	52,995
Non-operating revenue(expense)			
Interest income		90,011	34,359
Other income		65,208	172,292
Total non-operating revenues, net		155,219	206,651
Change in net position		(83,577)	259,646
Net position, beginning of year		6,125,665	5,866,019
Net position, end of year	$	6,042,088	6,125,665

See accompanying notes to the basic financial statements

Fox Canyon Groundwater Management Agency
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Cash receipts from extraction fees	$	2,712,202	3,038,995
Cash paid to vendors and suppliers for materials and services		(2,682,660)	(2,210,156)
Net cash provided by operating activities		29,542	828,839
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		-	(24,298)
Net cash used in capital and related financing activities		-	(24,298)
Cash flows from investing activities:			
Interest earnings		70,950	28,716
Net cash provided by investing activities		70,950	28,716
Net increase in cash and cash equivalents		100,492	833,257
Cash and cash equivalents, beginning of year		5,327,399	4,494,142
Cash and cash equivalents, end of year	$	5,427,891	5,327,399
Reconciliation of cash and cash equivalents to statements of net position:			
Cash and cash equivalents	$	5,427,891	5,327,399
Total cash and cash equivalents	$	5,427,891	5,327,399

Continued on next page

See accompanying notes to the basic financial statements

Fox Canyon Groundwater Management Agency
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of operating loss to net cash provided by operating activities:		
Operating (loss) income	$ (238,796)	52,995
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	51,908	75,634
Other non-operating	65,208	172,292
Change in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – extraction charges and services, net	130,479	605,147
Due from County of Ventura	4,064	(2,356)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	34,167	(69,207)
Due to County of Ventura	(17,488)	(5,666)
Total adjustments	268,338	775,844
Net cash provided by operating activit	$ 29,542	828,839

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Fox Canyon Groundwater Management Agency (the Agency) was formed on September 13, 1982, for the preservation of groundwater resources within the territory of the Agency for agricultural, municipal and industrial uses. The Agency is governed by a five-member Board of Directors. The Boards of Directors are appointed by their respective organizations or groups from the United Water Conservation District which is comprised of seven water District's within the Agency.

B. Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water extraction fees), capital grants, and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as extraction fees and purchase of professional services, result from exchange transactions associated with the principal activity of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

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.

D. Assets, Liabilities, and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the Agency's cash is invested in interest bearing accounts. The Agency considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The Agency extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the Agency uses the allowance method for the reservation and write-off of those accounts.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities, and Net Position, continued

5. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at $5,000 for equipment and purchased software. Internally-Generated Software threshold is set at $50,000. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Equipment – 2 to 30 years
- Purchased Software – 2 to 10 years
- Internally-Generated Software – 2 to 10 years

6. Net Position

The Agency follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net investment in capital assets component of net position* – this component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position

- *Unrestricted component of net position* – this component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

7. Extraction Charges and Surcharge Fees

Extraction charges are recognized in the period the water is extracted based on reports received from well operators. 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.

Surcharge fees are assessed annually as of December 31 and payable by February 1, revenue is recognized in the period when received, as amounts are not considered reasonably estimable and are therefore not considered susceptible to accrual.

8. Budgetary Policies

The Agency adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

(2) Cash and Investments

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

		2018	2017
Cash and cash equivalents	$	5,427,891	5,327,399
Total	$	5,427,891	5,327,399

(2) Cash and Investments, continued

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, 2018 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.

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 $5,427,891 consist of a ratable portion of the total investment pool of the County of Ventura.

(3) Accounts Receivable

The balance at June 30 consists of the following:

		2018	2017
Accounts receivable - Extraction fees	$	645,343	775,822
Total accounts receivable	$	645,343	775,822

(4) Capital Assets

Changes in capital assets for 2018 were as follows:

		Balance 2017	Additions/ Transfers	Deletions/ Transfers	Balance 2018
Depreciable assets:					
Computer equipment	$	185,063		-	185,063
Furniture and fixtures		357,852	-	-	357,852
Total depreciable assets		542,915	-	-	542,915
Accumulated depreciation:					
Equipment		(180,569)	(786)	-	(181,355)
Software		(262,824)	(51,122)	-	(313,946)
Total accumulated depreciation		(443,393)	(51,908)	-	(495,301)
Total capital assets, net	$	99,522			47,614

(4) Capital Assets, continued

Changes in capital assets for 2017 were as follows:

	Balance 2016	Additions/ Transfers	Deletions/ Transfers	Balance 2017
Depreciable assets:				
Equipment	185,063	-	-	185,063
Software	333,554	24,298	-	357,852
Total depreciable assets	518,617	24,298	-	542,915
Accumulated depreciation:				
Eqipment	(179,446)	(1,123)	-	(180,569)
Software	(188,313)	(74,511)	-	(262,824)
Total accumulated depreciation	(367,759)	(75,634)	-	(443,393)
Total capital assets, net	$ 150,858			99,522

(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 contract 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

(6) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the issue date, which has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations.* This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

(6) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 84, continued

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

(6) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

(6) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 90, continued

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The impact of the implementation of this Statement to the Agency's financial statements has not been assessed at this time.

(7) Commitments and Contingencies

The Agency has nine customers: Houweling Nurseries, Oxnard Inc., City of Oxnard, Sorrento Berry Farms, Laubacher Farm Inc., City of Ventura, Crisalida Berry Farms Inc., Boskovich Farms Inc., Pleasant Valley County Water District and United Water Conversation. Failure to pay by these customers could cause financial strain on the Agency.

(8) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of June 20, 2019, which is the date the financial statements were available to be issued.

(9) 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, 2018 and 2017 and the amounts due to the County of Ventura as June 30, 2018 and 2017 are identified in the Ventura County Public Works Agency Charges expense line.

The Agency recognized revenue of approximately $213,439 in 2018 from the United Water Conservation District for groundwater extraction fees. The Agency also recognized revenue of $50,932 in 2018, from other entities sharing a Board member with the Agency including Ventura County Waterworks Districts, the City of Camarillo, and Camrosa Water District.

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.

Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on the Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Fox Canyon Groundwater Management Agency
Ventura, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Fox Canyon Groundwater Management Agency (the Agency), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on the Audit of Financial Statements Performed in Accordance with *Government Auditing Standards, continued*

Purpose of this Report

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

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
June 20, 2019