

**SANTA ROSA REGIONAL
RESOURCES AUTHORITY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

SANTA ROSA REGIONAL RESOURCES AUTHORITY

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Board of Directors
Santa Rosa Regional Resources Authority
Temecula, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Rosa Regional Resources Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority'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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018 and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the year ended June 30, 2018, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 89, which eliminates the accounting for capitalized interest. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, identified as Required Supplementary Information (RSI) in the accompanying table of contents, 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Authority's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
September 14, 2018



Management's Discussion & Analysis

The intent of the management's discussion and analysis is to provide highlights of the financial activities for the fiscal year ended June 30, 2018 of the Santa Rosa Regional Resources Authority (the Authority). Readers are encouraged to read this section in conjunction with the accompanying basic financial statements.

Authority Operations – an Overview

The Authority is a newly created Joint Powers Authority formed by Elsinore Valley Municipal Water District (Elsinore), Rancho California Water District (Rancho), and Western Municipal Water District (Western) to perform all functions for the treatment and disposal of wastewater from its member agencies, including the acquisition, construction, and financing for capital projects.

The Authority was formed in November 2015. The service area encompasses all three districts but focuses on those areas delivering flows to the Santa Rosa Wastewater Reclamation Facility (SRWRF) in Murrieta. The SRWRF is the only treatment plant governed by the Authority and is the current and expected focus of its efforts. The Authority purchased the SRWRF by issuing bonds to relieve Rancho's debt related to the SRWRF on August 24, 2017. The SRRRA has a 99-year lease for the land under the SRWRF for \$1 per year. The Authority's Board of Directors has designated Rancho as the Administrator of the SRWRF for the purpose of managing the facilities and providing administrative services to the Authority.

Wastewater Collection/Treatment Operations

The Wastewater system handles flows from the City of Temecula, the City of Wildomar, and the City of Murrieta. This system of pipes is referred to as the "collection system." The collection system owned by the Authority consists of 17.37 miles of pipes, ranging from 8 inches in diameter up to 24 inches in diameter. Most of the system flows by gravity to lift stations that raise the wastewater to a higher level so that it can continue its journey to the reclamation facility. The system contains one lift station.

Wastewater treatment flows originating in the Authority's service area are treated at the SRWRF in Murrieta. The treatment plant was constructed in 1989 and is a sequencing batch reactor (SBR) treatment facility with a secondary and tertiary treatment capacity of 5 million gallons per day (mgd).

The SRWRF uses a biological treatment process followed by chemical clarification, filtration, and disinfection to prepare the water for reuse. Laboratory tests are conducted daily to ensure that the water meets the State of California's standards for reclaimed water. The facility's reclaimed water customers use virtually all of the treated water. On average, the SRWRF treats approximately one billion gallons of wastewater annually.



Overview of the Financial Statements

This basic annual report consists of the following two parts: *Management's Discussion and Analysis* and *Basic Financial Statements*. The Financial Statements include *Notes to the Basic Financial Statements*, which provide additional information that is essential to a full understanding of the data provided in the basic statements and are an integral part of the financial statements.

Required Financial Statements

The Financial Statements of the Authority report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America and consist of three interrelated statements designed to provide the reader with the relevant, understandable data on the Authority's financial condition and operating results. They are the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The *Statement of Net Position* includes information on the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, which provide information about the nature and amounts of investments in resources (assets), the obligation to the Authority's creditors (liabilities), and is one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position may serve as a useful indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth, and new or changed government legislation must also be considered.

The *Statement of Revenues, Expenses, and Changes in Net Position* identifies the Authority's revenues and expenses for the fiscal year ended June 30, 2018. This statement provides information on the Authority's operations during the fiscal year and can be used to determine whether the Authority has recovered all of its actual and projected costs through user fees and other charges.

The *Statement of Cash Flows* provides information on the Authority's cash receipts, cash payments, and changes in cash resulting from operations, investments, and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash balance from the previous fiscal year.

Financial Highlights

The Authority's financial operations remained sound during the period. In August 2017, the Authority issued Revenue Bonds of \$55,230,000 for the purchase of the SRWRF and related assets. In November 2017, the Authority entered into a loan agreement with the State Water Resources Control Board not to exceed \$31,800,000, with loan amounts received as requisitioned with project progression.



Sources of Revenue

Fiscal Year 2018 Compared to 2017

Revenues are based on budgeted expenses charged to each member agency based on overall proportionate current flows or Equivalent Dwelling Units (EDUs) and are billed on a monthly basis. The current fiscal year operating revenues totaled \$4,892,165, a decrease of \$445,887 from the previous year.

Other non-operating revenues consist of investment income, contributions from member agencies, and capital contributions. Contributions from member agencies and capital contributions are for debt service and replacement funds, respectively. Debt service contributions are billed semi-annually in accordance with the debt service schedules and replacement contributions are billed on a quarterly basis based on projected capital expenditures. As discussed previously, this is the first year the Authority has owned the SRWRF and therefore, the first year the Authority has recognized contributions from member agencies.

Combined Revenues by Category

Revenue Category	Fiscal Year 2018	Fiscal Year 2017	Dollar Change
Primary/Secondary	\$ 3,146,365	\$ 3,615,587	\$ (469,222)
Collections *	327,658	-	327,658
Tertiary	1,418,142	1,722,465	(304,323)
Non-Operating	4,915,517	3,509	4,912,008
Total Revenues	9,807,682	5,341,561	4,466,121
Capital Contributions	961,794	-	961,794
Total Revenues & Capital Contributions	\$ 10,769,476	\$ 5,341,561	\$ 5,427,915

*In Fiscal Year 2017, the Primary/Secondary category included Collections. In Fiscal year 2018, Collection revenues is separated from the Primary/Secondary category for clarification and comparison purposes.

Functional Expenses

Fiscal Year 2018 Compared to 2017

Operational expenses include costs incurred in order to operate, maintain, and administer the wastewater system, including collection, transmission, treatment, and disposal of wastewater and the management of wastewater byproducts. Combined operating expenses for fiscal year 2018 totaled \$6,742,819, resulting in an increase of \$1,861,984 higher than prior year, reflecting an increase in depreciation expense related to the purchase of the SRWRF and related assets from Rancho. The increase was offset slightly by the reduced costs in the following: treatment costs



were less than prior year due to deferred corrective maintenance, a reduction in contract expense and a reduction of scheduled outside services maintenance activities which were performed by Rancho’s internal labor; and Collections System costs were less than prior year due to deferred corrective maintenance and a decrease in contract expense.

Other non-operating expenses consist of bond interest expense, distributions to member agencies, and costs of issuance. Distributions to member agencies include amounts refunded back to the member agencies for accumulative excess of monthly contributions. Bond interest expense and costs of issuance increased this year due to the issuance of the 2017AB revenue bonds.

Combined Expenses by Category

Expense Category	Fiscal Year 2018	Fiscal Year 2017	Dollar Change
Primary/Secondary Treatment	\$ 2,506,583	\$ 2,669,778	\$ (163,195)
Collections	240,028	271,012	(30,984)
Tertiary Treatment	1,314,810	1,499,227	(184,417)
General and Administrative	435,198	437,748	(2,550)
Depreciation	2,246,200	3,070	2,243,130
Non-Operating	2,333,322	-	2,333,322
Total Expenses	\$ 9,076,141	\$ 4,880,835	\$ 4,195,306

Net Position

Fiscal Year 2018 Compared to 2017

The Authority’s Net Position is showing an increase by \$1,693,335 for the fiscal year 2017-2018. The Authority’s Net Position is allocated to three categories. The first category, Net Investment in Capital Assets, decreased from the prior year by \$2,914,060. The Authority added \$53,039,410 in capital assets with an offset of \$2,246,200 of depreciation expense. The amount of debt offsetting capital assets also experienced an increase of \$56,108,724 compared to the prior year due to the financing of the 2017AB Revenue Bonds and State Revolving Fund (SRF) loan payable. These factors created the net decrease in the first category. The second category, Restricted Net Position, increased by \$2,248,898, which includes replacement contributions from member agencies. The third category Unrestricted Net Position also had an increase of \$2,358,497, which is due to the purchase of SRWRF and related assets which included reserves.



Statement of Net Position

	As of June 30, 2018	As of June 30, 2017	Dollar Change
Assets			
Current	\$ 11,121,456	\$ 1,898,348	\$ 9,223,108
Noncurrent			
Capital	50,843,984	50,774	50,793,210
Total Assets	61,965,440	1,949,122	60,016,318
Liabilities			
Current	3,673,215	1,474,565	2,198,650
Noncurrent			
Long-Term Debt	56,124,333	50,774	56,073,559
Total Liabilities	59,797,548	1,474,565	58,322,983
Net Investment			
in Capital Assets	(2,863,286)	50,774	(2,914,060)
Restricted	2,248,898		
Unrestricted	2,782,280	423,783	2,358,497
Total Net Position	\$ 2,167,892	\$ 474,557	\$ 1,693,335

Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2018	June 30, 2017	Dollar Change
Operating Revenues	\$ 4,892,165	\$ 5,338,052	\$ (445,887)
Operating Expenses	(6,742,819)	(4,880,835)	(1,861,984)
Net Non-operating Revenues	2,582,195	3,509	2,578,686
Change in Net Position Before Capital Contribution	731,541	460,726	270,815
Capital Contributions	961,794	-	961,794
Change in Net Position	1,693,335	460,726	1,232,609
Net Position, July 1	474,557	13,831	460,726
Net Position, June 30	\$ 2,167,892	\$ 474,557	\$ 1,693,335



Capital Assets

The Authority’s capital assets increased during the fiscal year due to the purchase of the SRWRF and related assets from Rancho, as well as the following capital asset additions noted below:

Flow EQ Basin Liner Replacement	\$490,272
Submersible Pump Replacement	36,644
Data Radio Collection Replacement	9,909

Capital Assets

Asset Category	As of June 30, 2018	As of June 30, 2017	Dollar Change
Construction in Progress	\$ 3,327,071	\$ -	\$ 3,327,071
Primary/Secondary	25,899,043	27,708	25,871,335
Tertiary	7,059,088	4,889	7,054,199
Collections	16,808,412	21,607	16,786,805
Total Capital Assets	53,093,614	54,204	53,039,410
Less: Accumulated Depreciation	(2,249,630)	(3,430)	(2,246,200)
Net Capital Assets	\$ 50,843,984	\$ 50,774	\$ 50,793,210

Long-Term Debt

The Authority issued the 2017AB Revenue Bonds in August 2017 totaling \$55,230,000, as well as entered into a SRF Loan agreement as of November 2017. Additional information can be found on Note 4 of the Notes to the Basic Financial Statements.

Schedule of Long-Term Debt

	Fiscal Year 2018	Fiscal Year 2017	Dollar Change
Revenue Bonds	\$ 54,040,000	\$ -	\$ 54,040,000
Unamortized Premium	2,068,724	-	2,068,724
Loans Payable	2,050,609	-	2,050,609
Total	\$ 58,159,333	\$ -	\$ 58,159,333



Economic Factors and Next Year’s Budgets and Rates

The Authority’s Board of Directors and Executive Advisory Committee considered many factors when setting the fiscal year 2019 budget. The Operating budget establishes rates and/or contributions to be billed to and paid by the member agencies for each available type of service provided and are set for fiscal year 2019 on a proportionate share basis of total EDUs. The member agency allocation for fiscal year 2019 is based on EDUs totaling 16,982 with Elsinore, Rancho, and Western having 5,086, 8,299 and 3,597 EDUs respectively. Therefore, operating expense allocation is distributed 29.9%, 48.9% and 21.2% for Primary and Secondary Treatment Expenses, respectively. Tertiary Treatment expense is 29.9% for Elsinore and 70.1% for Rancho, with Western having zero percent cost share for recycled water. Capital and Debt Expense allocation is based upon a proportionate amount of ultimate capacity in the relevant service type applicable to each of the three member agencies. See below matrices for Operating and Capital expense allocation.

Operating Expense Allocation Matrix per JPA Agreement			
Member Agency	Connected EDU's as of 1/31/2018	Primary & Secondary Treatment	Tertiary Treatment
Elsinore	5,086	29.9%	29.9%
Rancho	8,299	48.9%	70.1%
Western	3,597	21.2%	0.0%
Total	16,982	100.0%	100.0%

Capital and Debt Expense Allocation Matrix per JPA Agreement			
	Primary & Secondary Treatment	Tertiary Treatment	Trunk Sewer
Member Agency	Based on ultimate flow/capacity requirements	Based on ultimate recycled water amounts	Based on engineering analysis
Elsinore	40% - 2.0 MGD	40% - 2.0 MGD	43.57%
Rancho	40% - 2.0 MGD	60% - 3.0 MGD	36.61%
Western	20% - 1.0 MGD	0% - 0.0 MGD	19.82%

Contacting the Santa Rosa Regional Resources Authority’s Financial Management

This financial report is designed to provide the Authority’s elected officials, customers, investors, and creditors with a general overview of the Authority’s finances and to demonstrate the Authority’s accountability of the revenues it receives. If you have any questions regarding this report or need additional financial information, please contact the Santa Rosa Regional Resources Authority’s Administrator.

SANTA ROSA REGIONAL RESOURCES AUTHORITY
STATEMENT OF NET POSITION

June 30, 2018

ASSETS:

CURRENT ASSETS:

Unrestricted Assets:

Cash and investments (Note 2)	\$ 1,545,802
Deposits	500,000
Interest receivable	20,480
Inventory	41,124
Prepaid items	27,221

Restricted:

Cash and investments (Note 2)	8,986,829
TOTAL CURRENT ASSETS	11,121,456

NONCURRENT ASSETS:

Capital assets (Note 3):

Non-depreciable	3,327,071
Depreciable, net of accumulated depreciation	47,516,913
TOTAL NONCURRENT ASSETS	50,843,984

TOTAL ASSETS	61,965,440
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LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	502,827
Interest payable	727,707
Unearned revenue	407,681
Current portion of long-term liabilities (Note 4)	2,035,000
TOTAL CURRENT LIABILITIES	3,673,215

NONCURRENT LIABILITIES

Bonds payable (Note 4)	54,073,724
Loans payable (Note 4)	2,050,609
TOTAL NONCURRENT LIABILITIES	56,124,333

TOTAL LIABILITIES	59,797,548
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NET POSITION:

Net investment in capital assets	(2,863,286)
Restricted for capital projects	2,248,898
Unrestricted	2,782,280
NET POSITION	\$ 2,167,892

See accompanying notes to the basic financial statements.

SANTA ROSA REGIONAL RESOURCES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the year ended June 30, 2018

OPERATING REVENUES:

Wastewater services:	
Primary and secondary	\$ 3,146,365
Collections	327,658
Tertiary	<u>1,418,142</u>
TOTAL OPERATING REVENUES	<u>4,892,165</u>

OPERATING EXPENSES:

Primary and secondary treatment	2,506,583
Collections	240,028
Tertiary treatment	1,314,810
General and administrative	435,198
Depreciation	<u>2,246,200</u>
TOTAL OPERATING EXPENSES	<u>6,742,819</u>

OPERATING INCOME (LOSS)	<u>(1,850,654)</u>
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NONOPERATING REVENUES/(EXPENSES):

Investment income	49,718
Interest expense	(1,389,638)
Contributions from member agencies	4,865,799
Distributions to member agencies	(506,892)
Cost of issuance expense	<u>(436,792)</u>
TOTAL NONOPERATING REVENUES/(EXPENSES)	<u>2,582,195</u>

NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	731,541
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CAPITAL CONTRIBUTIONS:

Capital contributions from member agencies	<u>961,794</u>
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CHANGES IN NET POSITION	1,693,335
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NET POSITION - BEGINNING OF YEAR	<u>474,557</u>
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NET POSITION - END OF YEAR	<u><u>\$ 2,167,892</u></u>
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See accompanying notes to the basic financial statements.

SANTA ROSA REGIONAL RESOURCES AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 4,799,846
Cash payments to suppliers of goods and services	<u>(4,620,965)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>178,881</u>
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CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Acquisition and construction of capital assets	(53,039,410)
Proceeds from debt issuance	57,405,360
Proceeds from loan	2,050,609
Debt issuance costs	(436,792)
Receipts from member agencies for capital replacement and debt service	5,762,742
Distributions to member agencies	(506,892)
Principal paid on long-term debt	(1,190,000)
Interest paid on long-term debt	<u>(768,567)</u>

NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>9,277,050</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest and investment earnings	<u>29,238</u>
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NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>29,238</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS	9,485,169
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CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,047,462</u>
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CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 10,532,631</u></u>
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(Continued)

See accompanying notes to the basic financial statements.

SANTA ROSA REGIONAL RESOURCES AUTHORITY
STATEMENT OF CASH FLOWS
(CONTINUED)
For the year ended June 30, 2018

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	<u>\$ (1,850,654)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	2,246,200
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Deposits	(500,000)
Inventory	(41,124)
Prepaid items	(27,221)
Increase (decrease) in liabilities:	
Accounts payable	(56,001)
Unearned revenue	<u>407,681</u>
Total adjustments	<u>2,029,535</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 178,881

CASH AND CASH EQUIVALENTS-
FINANCIAL STATEMENT CLASSIFICATION

Unrestricted cash and cash equivalents	\$ 1,545,802
Restricted cash and cash equivalents	<u>8,986,829</u>
	<u>\$ 10,532,631</u>

NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Net change in investment fair values	<u>\$ 10,219</u>
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See accompanying notes to the basic financial statements.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2018

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Santa Rosa Regional Resources Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority are described below.

a. Description of Reporting Entity

The Authority was created on November 12, 2015 pursuant to the provisions of Articles 1, 2 and 4 of Chapter 5 of Division 7, of Title 1 of the Government Code (Section 6500 et al, as amended) of the State of California relating to the joint exercise powers common to public agencies for the purpose of the ownership, operation, maintenance, and administration of the Santa Rosa Water Reclamation Facilities (the Facilities), on a cooperative basis for the collection, transmission, treatment, and disposal of wastewater, and the management of wastewater treatment byproducts, and to supersede certain agreements by and among the member agencies.

The three Member Agencies of the Authority are the Elsinore Valley Municipal Water District (Elsinore), Rancho California Water District (Rancho), and Western Municipal Water District of Riverside County (Western). The Authority is governed by a Board of Directors consisting of three Directors. Each Member Agency appoints one Director. The Directors serve without compensation. The Board of Directors currently employs Rancho, under contract to operate the Authority.

b. Acquisition and Operation of Facilities

Under the Joint Exercise of Powers Agreement (the Agreement) creating the Santa Rosa Regional Resources Authority, the Authority acquired certain facilities including property described in the Facilities Acquisition Agreement and obtained financing to pay off and defease the Rancho debt associated with the Facilities. The Member Agencies approved the acquisition of the Facilities by issuing bonds to relieve Rancho's debt on the Facilities on August 24, 2017. The Facilities will be operated in accordance with the Agreement and such other agreements entered into by the Authority and the Member Agencies from time to time. The Authority has a 99-year lease for the land under the Facilities for one dollar (\$1.00) per fiscal year payable on July 1 of each year. The Authority also obtained a State Revolving Fund (SRF) Loan from the State Water Resources Control Board (the Control Board) to finance a capital rehabilitation project of the Facilities. See Note 3 for additional details on capital assets and Note 4 for additional details on the long-term debt.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Basis of Accounting and Measurement Focus

The Authority 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 Authority is that the costs (including depreciation) of providing services to the Member Agencies on a continuing basis be financed or recovered primarily through user charges for wastewater services. Revenues and expenses are recognized on the accrual basis. 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 wastewater services, result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal values. General and administrative expenses and depreciation expense are also considered operating expenses. Other revenue and expenses not included in the above categories are reported as nonoperating revenues and expenses.

d. Cash and Cash Equivalents

Cash and cash equivalents on the statement of net assets include amounts in the Local Agency Investment Fund. Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

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, maturity, or sale of investments.

For the purposes of the statement of cash flows, the Authority considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

e. Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the Authority's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the Authority's own data.

f. Due from Member Agencies

The Authority extends credit to its Member Agencies in the normal course of operations. The Authority considers accounts receivable from its Member Agencies to be fully collectible; accordingly, no allowance for doubtful accounts is required.

g. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. The Authority's capitalization policy, which has set the capitalization threshold for reporting capital assets at \$2,000 and an estimated useful life of more than one year. Donated assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Wastewater treatment plant	40 years
Equipment and vehicles	5 years
Computers and software	3-5 years
Office equipment	5-7 years

A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The Authority periodically evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Management has determined that there were no such impairments at June 30, 2018.

h. Bond Premium

The bond premium, net of accumulated amortization, was \$2,068,724 as of June 30, 2018, and has been reported as an addition to bonds payable.

i. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net Investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt associated with the acquisition, construction or improvement of those assets.

Restricted net position – This component of net position consists of external constraints placed on net position use imposed by creditors, grantors, contributors, or laws and regulations of other governments. Or constraints imposed by law through constitutional provisions or enabling legislation, less outstanding debt associated with restricted assets. Net position designated as restricted for capital is contributions from member agencies restricted for capital use.

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

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. 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 and liabilities and disclosures of contingent assets and liabilities 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 INVESTMENTS

Cash and investments held by the Authority were comprised of the following at June 30, 2018:

Financial Statement Classification:

Current:

Cash and investments	\$ 1,545,802
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Restricted:

Investments	<u>8,986,829</u>
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Total	<u>\$10,532,631</u>
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Cash and investments as of June 30, 2018, consisted of the following:

Deposits with financial institutions	\$ 635,062
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Investments	<u>9,897,569</u>
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Total cash and investments	<u>\$10,532,631</u>
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Investments Authorized by the California Government Code and Rancho's Investment Policy:

The table below identifies the investment types that are authorized for the Authority by the California Government Code and Rancho's investment policy. The table also identifies certain provisions of the California Government Code (or Rancho's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or Rancho's investment policy.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

2. CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code and Rancho's Investment Policy
(Continued):

Investment Types <u>Authorized by State Law</u>	Authorized by Investment <u>Policy</u>	Maximum <u>Maturity*</u>	Maximum Percentage <u>of Portfolio*</u>	Maximum Investment <u>In One Issuer*</u>
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	2 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	No	N/A	None	None
Commercial Paper	No	N/A	None	None
Negotiable Certificates of Deposit	Yes	2 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of base value	None
Medium-Term Notes	No	N/A	None	None
Mutual Funds	No	N/A	None	None
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	N/A	None	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or Rancho's investment policy requirements, whichever is more restrictive.

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or Rancho's investment policy. The following table identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of risk.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

2. CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements (Continued):

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	No Limitation	No Limitation	No Limitation
U.S. Government Sponsored Agency Securities	No Limitation	No Limitation	No Limitation
State Obligations or Political Subdivision of States	No Limitation	No Limitation	No Limitation
Certificates of Deposits	No Limitation	No Limitation	No Limitation
Bankers Acceptances	365 days	No Limitation	No Limitation
Repurchase Agreements	No Limitation	No Limitation	No Limitation
Commercial Paper	No Limitation	No Limitation	No Limitation
Money Market Mutual Funds	No Limitation	No Limitation	No Limitation
Investment Agreements	No Limitation	No Limitation	No Limitation

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

The Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average duration of its portfolio. Duration measures the investments exposure to fair value arising from changing interest rates. The weighted average duration expresses investment time horizons - the time when investments become due and payable, in years, weighted to reflect dollar size of individual investments with an investment type. The Authority's investments of \$9,897,569 have a weighted average duration of one day.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table are the Standard and Poor's or Moody's credit ratings for the Authority's investments.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

2. CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Interest Rate Risk (Continued):

<u>Investment</u>	<u>Total</u>		
	<u>June 30, 2018</u>	<u>AAA</u>	<u>Unrated</u>
Local Agency Investment Fund	\$ 6,985,747	\$ -	\$ 6,985,747
Money Market Mutual Funds	<u>2,911,822</u>	<u>2,911,822</u>	<u>-</u>
	<u>\$ 9,897,569</u>	<u>\$ 2,911,822</u>	<u>\$ 6,985,747</u>

Custodial Credit Risk:

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and Rancho's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

California Local Agency Investment Fund:

The Authority is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

3. CAPITAL ASSETS

Capital assets consist of the following at June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 3,892,534	\$ (565,463)	\$ 3,327,071
Capital assets being depreciated:				
Primary/Secondary system	27,707	25,844,839	-	25,872,546
Tertiary system	4,890	7,059,088	-	7,063,978
Collection system	21,607	16,808,412	-	16,830,019
Total capital assets, being depreciated	54,204	49,712,339	-	49,766,543
Less accumulated depreciation for:				
Primary/Secondary system	1,754	1,342,468	-	1,344,222
Tertiary system	309	394,018	-	394,327
Collection system	1,367	509,714	-	511,081
Total accumulated depreciation	3,430	2,246,200	-	2,249,630
Total capital assets, being depreciated, net	50,774	47,466,139	-	47,516,913
Total capital assets, net	<u>\$ 50,774</u>	<u>\$ 51,358,673</u>	<u>\$ (565,463)</u>	<u>\$ 50,843,984</u>

Depreciation expense was \$2,246,200 for the year ended June 30, 2018.

4. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2018, were as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Revenue Bonds:					
2017A Series	\$ -	\$ 24,040,000	\$ -	\$ 24,040,000	\$ 500,000
2017B Series	-	31,190,000	(1,190,000)	30,000,000	1,535,000
	-	55,230,000	(1,190,000)	54,040,000	2,035,000
Add:					
Unamortized Premium	-	2,175,360	(106,636)	2,068,724	-
Subtotal	-	57,405,360	(1,296,636)	56,108,724	2,035,000
Loan Payable	-	2,050,609	-	2,050,609	-
Total	<u>\$ -</u>	<u>\$ 59,455,969</u>	<u>\$ (1,296,636)</u>	<u>\$ 58,159,333</u>	<u>\$ 2,035,000</u>

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

4. LONG-TERM LIABILITIES (CONTINUED)

2017 Series A and B Revenue Bonds

In August 2017, the Authority issued \$24,040,000 of Tax-Exempt Fixed Rate Revenue Bonds and \$31,190,000 of Taxable Fixed Rate Revenue Bonds. These bonds were issued to provide funds to finance the acquisition of wastewater treatment facilities and improvements.

The bonds bear interest rates ranging from 3% to 5% and are payable semiannually in February and August through August 2034.

As of June 30, 2018, the outstanding balance on the 2017 Series A and B Revenue Bonds was \$24,040,000 and \$30,000,000, respectively.

Aggregate maturities of the revenue bonds and interest payments subsequent to June 30, 2018, are as follows:

Year Ending	Principal	Interest	Total
2019	\$ 2,035,000	\$ 1,724,494	\$ 3,759,494
2020	2,570,000	1,681,006	4,251,006
2021	3,890,000	1,613,666	5,503,666
2022	3,815,000	1,514,296	5,329,296
2023	2,705,000	1,416,801	4,121,801
2024-2028	13,740,000	5,722,640	19,462,640
2029-2033	16,075,000	3,045,581	19,120,581
2034-2038	9,210,000	295,050	9,505,050
Total	<u>\$ 54,040,000</u>	<u>\$ 17,013,534</u>	<u>\$ 71,053,534</u>

As of August 1, 2017, each member agency entered into a Wastewater Capacity Funding Agreement with the Authority. The Funding Agreement sets forth terms and conditions which require each member agency to fulfill its obligations under the Agreement to pay the Authority its allocated share of the Authority's debt service on the bonds. The allocated share of debt service is based on agreed upon capacity rights related to the capital facilities acquired and constructed by the bond funding.

State Revolving Fund Loan Payable

In November 2017, the Authority entered into a loan agreement with the State Water Resources Control Board totaling \$31,800,000. Principal and interest will not be due until one year after the completion of the project. Interest is payable at 1.8% per annum. An amortization schedule is not yet available for amounts drawn down to date. The outstanding balance at June 30, 2018 is \$2,050,609.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

4. LONG-TERM LIABILITIES (CONTINUED)

As of January 2, 2018, each member agency entered into a Funding Agreement Pertaining to State Revolving Fund Loan from the California State Water Resources Control Board with the Authority. The Funding Agreement sets forth terms and conditions which require each member agency to fulfill its obligations under the Agreement to pay the Authority its allocated share of the Authority's debt service on the SRF loan. The allocated share of debt service is based on agreed upon capacity rights related to capital facilities constructed by the SRF loan.

5. RISK MANAGEMENT

The Authority is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2018, the Authority participated in the self-insurance program of the JPIA as follows:

General and Auto Liability - Insured up to \$60,000,000 with aggregate policy limits; the JPIA is self-insured up to \$2,000,000 and excess insurance coverage has been purchased.

Public Officials' Liability - Insured up to \$60,000,000 with aggregate policy limits; the JPIA is self-insured up to \$2,000,000 and excess insurance coverage has been purchased.

The Authority pays annual premiums for these coverages. They are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and are charged to expense as invoiced.

6. CONTINGENCIES

California Public Employees Retirement System (CalPERS) Actuarial Liability:

Rancho has an unfunded potential actuarial liability to CalPERS for Rancho's employees who are, or have been, assigned to the Facilities (Rancho Employees). Although it is understood that Rancho will bear the financial responsibility to pay the annual employer contributions to CalPERS for the retirement benefits accrued by the Rancho Employees, the Authority has agreed to assume responsibility for and pay any remaining unfunded liability associated with Rancho Employees upon a change in Rancho as the Authority's Administrator, which is unlikely.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

Year ended June 30, 2018

6. CONTINGENCIES (CONTINUED)

In the event of the dissolution of the Authority, each Member Agency will assume responsibility for and pay its proportionate share of any remaining unfunded actuarial liability associated with Rancho Employees. The unfunded actuarial liability was computed as of the Authority's formation date and will be periodically redetermined over the life of the Authority. If Rancho is terminated as the Authority's Administrator, the unfunded actuarial liability will be calculated based on benefit accrued by Rancho Employees as of the effective date of the termination. If a Member Agency elects to withdraw from the Authority, the Member Agency will assume liability for its proportionate share of the unfunded actuarial liability, if any, at the time of that Member Agency's withdrawal from the Authority. Due to the uncertainty of these future events, the accompanying financial statements do not include a pension liability at June 30, 2018.