

Executive Committee
Santa Rosa Regional Resource Authority
Temecula, California

We have audited the financial statements of Santa Rosa Regional Resources Authority (the Authority) for the period from November 12, 2015 to June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our planning matters letter to you dated April 28, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As discussed in Note 1d to the financial statements, in fiscal year 2015-2016, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*". GASB Statement No. 72 requires the Authority to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the Authority's financial statements as a result of the implementation of GASB Statement No. 72. No other accounting policies were adopted and the application of other existing policies was not changed during the fiscal year ended June 30, 2016. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimate affecting the Authority's financial statements was management's estimate of fair value of investments which is based on evaluated prices received by Rancho California Water District's asset manager from a third party service provider.

We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are reported in Note 1b regarding acquisition and operation of facilities and Note 5 regarding contingencies.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. As a result of our audit related testwork, we proposed no corrections to the financial statements that, in our judgment, had a significant effect on the Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 30, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant Audit Findings (Continued)

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Executive Committee and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
August 30, 2016

**SANTA ROSA REGIONAL
RESOURCES AUTHORITY**

BASIC FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**FOR THE PERIOD FROM
NOVEMBER 12, 2015 TO JUNE 30, 2016**

SANTA ROSA REGIONAL
RESOURCES AUTHORITY

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June 30, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Santa Rosa Regional Resources Authority
Temecula, California

We have audited the accompanying financial statements of the Santa Rosa Regional Resources Authority (the Authority) as of and for the period from November 12, 2015 to June 30, 2016, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2016 and the changes in its financial position, and its cash flows for the period from November 12, 2015 to June 30, 2016 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, 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.

White Nelson Nick Evans LLP

Irvine, California
August 30, 2016



Management's Discussion & Analysis

The intent of the management's discussion and analysis is to provide highlights of the financial activities for the period from November 12, 2015 to June 30, 2016 of the Santa Rosa Regional Resources Authority ("SRRRA"). Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

SRRRA Operations – an Overview

The Santa Rosa Regional Resources 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 Authority Member Agencies (member agencies), including the acquisition, construction and financing for capital projects.

The SRRRA was formed in November 2015 with the service area encompassing all three districts but focusing on those areas delivering flows to the Santa Rosa Wastewater Reclamation Facility (SRWRF) in Murrieta. The SRWRF is the only treatment plant governed by SRRRA and is the current and expected focus of its efforts. The SRWRF is currently owned and operated by Rancho, and is to be purchased by SRRRA upon successful completion of acquiring the necessary debt financing. The SRRRA Board of Directors has designated Rancho as the Administrator of the wastewater treatment facility for the purpose of managing the facilities and providing administrative services to the SRRRA.

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 consists of 80 miles of pipes ranging from eight inches in diameter up to 24 inches in diameter. Most of the system flows by gravity to lift stations that raise the water to a higher level so that it can continue its journey to the reclamation facility. The system contains three lift stations.

Wastewater treatment flows originating in the SRRRA'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 treatment capacity of 5 million gallons per day (mgd) and a tertiary treatment capacity of 5 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 plant's reclaimed water customers use virtually all of the treated water. On average, the plant treats approximately one billion gallons of wastewater annually.



Overview of the Financial Statements

This annual report consists of the following two parts: *Management's Discussion and Analysis*, and *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 SRRRA 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 SRRRA'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 SRRRA'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 SRRRA creditors (liabilities), and is one way to measure financial health or financial position. Over time, increases or decreases in the SRRRA'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 SRRRA's revenues and expenses for the period November 12, 2015 to June 30, 2016. This statement provides information on the SRRRA's operations during the period and can be used to determine whether the SRRRA has recovered all of its actual and projected costs through user fees and other charges.

The *Statement of Cash Flows* provides information on the SRRRA'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 of the last fiscal year. The current year cash flow has only eight months of operations and therefore comparative information does not apply.

Financial Highlights

The operations for SRRRA began in November 2015 and therefore the fiscal year financial statements only include eight months of operations and there are no prior year financial statements to use for comparative purposes. The SRRRA's financial operations remained sound during the period. Sources of revenue were sufficient to cover combined operating and non-operating costs.

**Sources of Revenue**

Revenues are based on operating rates charged to each member agency based on equivalent dwelling units (EDUs) that are connected to the system and are billed on a monthly basis. The 2015-2016 rates and billings were based on the existing system until the end of the fiscal year. Combined revenues for the current period totaled \$3,381,003.

Combined Revenues by Category	
Revenue Category	For eight months ended June 30, 2016
Primary/ Secondary	\$ 2,343,023
Tertiary	1,037,980
Total Treatment Revenues	<u>\$ 3,381,003</u>

Functional Expenses

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. Depreciation expense was \$360 or 0.67% of assets, reflecting the purchase of depreciable capital assets during the current year. See below *Budget Variations* section. Combined expenses for the period totaled \$3,367,549.

Combined Expenses by Category	
Expense Category	For eight months ended June 30, 2016
Primary/Secondary Treatment	\$ 2,298,830
Tertiary Treatment	1,043,418
General and Administrative	24,941
Depreciation	360
Total Expenses	<u>\$ 3,367,549</u>



Net Position

Current assets consist of cash collected for treatment fees paid by member agencies. Current liabilities are amounts due to Rancho for operational cost reimbursement. See below for capital assets. The Net Position of the SRRRA as of June 30, 2016 is \$13,831.

Statement of Net Position

	As of June 30, 2016
Assets	
Current	\$ 694,566
Noncurrent	
Capital	53,844
Total Assets	<u>748,410</u>
Liabilities	
Current	734,579
Long-Term Debt	-
Total Liabilities	<u>734,579</u>
Net Investment in Capital Assets	53,844
Unrestricted	(40,013)
Total Net Position	<u>\$ 13,831</u>

Statement of Revenues, Expenses and Changes in Net Position

	For eight months ended June 30, 2016
Operating Revenues	\$ 3,381,003
Operating Expenses	(3,367,549)
Net Non-operating Revenues	377
Change in Net Position	13,831
Change in Net Position	13,831
Net Position, November 12	-
Net Position, June 30	<u>\$ 13,831</u>



Capital Assets

The SRRRA purchased a high pressure sewer cleaner and an emergency generator fuel pipe as capital assets during the period. Major net capital asset additions for the current year are noted below:

Capital Assets	
Asset Category	As of June 30, 2016
General Plant	\$ 54,204
Total Capital Assets	54,204
Less: Accumulated Depreciation	(360)
Net Capital Assets	<u>\$ 53,844</u>

Budget Variations

Revenue is over budget by \$65,113 or 2% and is based on annually established rates which will reflect growth in EDUs. Primary/secondary costs were over budget by \$75,068 from the effort of raising manhole covers and replacing them with lockable covers in areas that have been vandalized. Rancho staff also replaced two electronic components for the programmable logic controllers at the SBR which have failed. Tertiary costs are over budget by \$91,185 mostly due to corrective maintenance from the change out of the filter media at the advanced treatment plant. There is also an increase in labor as staff manually monitors the chlorine system which has been down for approximately four months. This is being addressed in the Active Feed Control Project which is currently in process. Energy costs were over budget by \$46,376 from a delay in anticipated savings from the digester improvements which were not completed until March. Staff is actively working with Edison on reducing usage in order to qualify for a lower rate structure. See below for a comparison of the changes from budget to actual for eight months ended June 30, 2016.

Statement of Revenues, Expenses and Changes in Net Position Compared to Budget

	Budget	For eight months ended	Dollar	Percent
	2016	June 30, 2016	Change	Change
Operating Revenues	\$ 3,315,890	\$ 3,381,003	\$ 65,113	1.96%
Operating Expenses	(3,174,035)	(3,367,549)	(193,514)	6.10%
Net Non-operating Revenues	-	377	377	100.00%
Change in Net Position	<u>\$ 141,855</u>	<u>\$ 13,831</u>	<u>\$ (128,024)</u>	<u>-90.25%</u>



Economic Factors and Next Year’s Budgets and Rates

The SRRRA’s Board of Directors and Executive Committee considered many factors when setting the fiscal year 2017 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 are set for fiscal year 2017 on a proportionate share basis of total EDU’s rather than on dollar per EDU rate as was previously in effect. The member agency allocation for fiscal year 2017 is based on EDUs totaling 16,860 with Elsinore, Rancho and Western having 5,086, 8,191 and 3,543 EDUs respectively. Therefore, operating expense allocation is distributed 30.2%, 48.7% and 21.1% for Primary and Secondary Treatment Expenses, respectively. Tertiary Treatment expense is 30.2% for Elsinore and 69.8% for Rancho with Western having zero percent cost share for recycled water. Capital and Debt Expense allocation is based upon 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 Section 3.1			
Member Agency	Connected EDU's as of 1/31/2016	Primary & Secondary Treatment	Tertiary Treatment
Elsinore	5,086	30.2%	30.2%
Rancho	8,191	48.7%	69.8%
Western	3,543	21.1%	0.0%
Total	16,820	100.0%	100.0%

Capital and Debt Expense Allocation Matrix per JPA Agreement Section 5.1			
	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	52% - 2.6 MGD	36.61%
Western	20% - 1.0 MGD	8% - 0.4 MGD	19.82%



Contacting the SRRRA's Financial Management

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

SANTA ROSA REGIONAL RESOURCES AUTHORITY

STATEMENT OF NET POSITION

June 30, 2016

ASSETS :

CURRENT ASSETS:

Unrestricted Assets:

Cash and cash investments (Note 2)

\$ 131,787

Accounts receivable

562,779

TOTAL CURRENT ASSETS

694,566

NONCURRENT ASSETS:

Capital assets (Note 3):

Depreciable, net of accumulated depreciation

53,844

TOTAL ASSETS

748,410

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable

734,579

NET POSITION:

Net investment in capital assets

53,844

Unrestricted

(40,013)

NET POSITION

\$ 13,831

See accompanying notes to basic financial statements.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the period from November 12, 2015 to June 30, 2016

OPERATING REVENUES:	
Wastewater services	
Primary and secondary	\$ 2,343,023
Tertiary	1,037,980
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TOTAL OPERATING REVENUES	3,381,003
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OPERATING EXPENSES:	
Primary and secondary treatment	2,298,830
Tertiary treatment	1,043,418
General and administrative	24,941
Depreciation	360
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TOTAL OPERATING EXPENSES	3,367,549
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OPERATING INCOME	13,454
NONOPERATING REVENUES:	
Investment income	377
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CHANGES IN NET POSITION	13,831
NET POSITION - BEGINNING OF PERIOD	
	<hr/>
NET POSITION - END OF YEAR	\$ 13,831
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See accompanying notes to basic financial statements.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

STATEMENT OF CASH FLOWS

For the period from November 12, 2015 to June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 2,818,224
Cash payments to suppliers of goods and services	<u>(2,632,610)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	185,614
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(54,204)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and investment earnings	<u>377</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	131,787
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 131,787</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	<u>\$ 13,454</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	360
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(562,779)
Increase (decrease) in liabilities:	
Accounts payable	<u>734,579</u>
Total adjustments	<u>172,160</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 185,614</u></u>

See accompanying notes to basic financial statements.

SANTA ROSA REGIONAL
RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS

For the period from November 12, 2015 to June 30, 2016

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 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:

As of June 30, 2016, except for the equipment purchased between November 12, 2015 and June 30, 2016, the Facilities continue to be owned by Rancho.

Under the Joint Exercise of Powers Agreement creating the Santa Rosa Regional Resources Authority (the Agreement), the Authority has agreed to acquire the Facilities including any related Property as more specifically described in the Facilities Acquisition Agreement and to obtain financing in order to pay off and defease the Rancho Debt associated with the Facilities which amounted to \$61,746,041 at June 30, 2016. The Authority has an application submitted to obtain a State Revolving Fund Loan (the SRF Loan) or other financing to discharge Rancho's Debt on the Facilities (Acquisition Price). In the event that the SRF Loan is not approved by the planned acquisition date, the Member Agencies agree that the acquisition price will be financed by revenue bonds issued by the Authority.

SANTA ROSA REGIONAL
RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from November 12, 2015 to June 30, 2016

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Acquisition and Operation of Facilities (Continued):

Prior to the conveyance of the Facilities by Rancho to the Authority, the Facilities is being operated in accordance with the terms of the Joint Exercise of Powers Agreement creating the Santa Rosa Regional Resources Authority (the Agreement) and the Facilities Acquisition Agreement. Upon the conveyance of the Facilities by Rancho to the Authority, the Facilities will be operated in accordance with the Agreement and such other agreements as are entered into by the Authority and the Member Agencies from time to time. Upon conveyance by Rancho, the Authority will own all of the Facilities and will be responsible for all debts and liabilities associated with the Facilities that are incurred by the Authority after the Effective Date of the Agreement. The land upon which the Facilities are located will not be owned by the Authority, but will be leased by the Authority from Rancho for a ninety-nine (99) year term, unless extended, at a rental rate of one dollar (\$1.00) per fiscal year payable on July 1 of each year. Each Member Agency will execute any conveyance instruments necessary in order to accomplish a transfer of all assets, debts, and liabilities associated with the Facilities.

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 sewer 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.

SANTA ROSA REGIONAL
RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from November 12, 2015 to June 30, 2016

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements:

Current Year Standards:

Governmental Accounting Standards Board (GASB) Statement No. 72 - *“Fair Value Measurement and Application”*, was required to be implemented in the current fiscal year and did not impact the Authority.

GASB Statement No. 73 - *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, was required to be implemented in the current fiscal year, except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for periods beginning after June 15, 2016, and did not impact the Authority.

GASB Statement No. 76 - *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”*, was required to be implemented in the current fiscal year, and did not impact the Authority.

GASB Statement No. 79 - *“Certain External Investment Pools and Pool Participants”*, was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the Authority.

Pending Accounting Standards:

GASB has issued the following statements, which may impact the Authority’s financial reporting requirements in the future:

- GASB 73 - *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016.
- GASB 74 - *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, effective for periods beginning after June 15, 2016.

SANTA ROSA REGIONAL
RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from November 12, 2015 to June 30, 2016

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements:

Pending Accounting Standards (Continued):

- GASB 75 - *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, effective for periods beginning after June 15, 2017.
- GASB 77 - *“Tax Abatement Disclosure”*, effective for periods beginning after December 15, 2015.
- GASB 78 - *“Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans”*, effective for periods beginning after December 15, 2015.
- GASB 79 - *“Certain External Investment Pools and Pool Participants”*, the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015.
- GASB 80 - *“Blending Requirements for Certain Component Units”*, effective for periods beginning after June 15, 2016.
- GASB 81 - *“Irrevocable Split-Interest Agreements”*, effective for periods beginning after December 15, 2016.
- GASB 82 - *“Pension Issues”*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which is effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

e. Cash and Cash Equivalents:

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.

f. Due from Member Agencies:

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

SANTA ROSA REGIONAL
RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from November 12, 2015 to June 30, 2016

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Capital Assets:

Capital assets acquired and/or constructed are capitalized at historical cost. Authority policy 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 estimated fair market 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:

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, 2016.

h. 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 amounts that are restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

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".

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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from November 12, 2015 to June 30, 2016

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. 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:

Cash and investments held by the Authority at June 30, 2016 are comprised of a money market mutual fund. The Authority does not have a separate bank account. At June 30, 2016, the Authority's cash and investments of \$131,787 are maintained in a money market mutual fund managed by Rancho. The money market mutual fund is governed by and under the regulatory oversight of the Investment Policy adopted by the Board of Directors of Rancho. The Authority has not adopted an investment policy separate from that of Rancho.

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 is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that Rancho 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 evenly over time as necessary to provide the cash flow and liquidity needed for operations. Rancho 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. Total investments at June 30, 2016, of \$131,787 are comprised of a money market mutual fund, which can be liquidated any time.

Disclosures Relating to Credit Risk:

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. Investments in the money market mutual fund are rated AAA by Standard and Poor's.

SANTA ROSA REGIONAL
RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from November 12, 2015 to June 30, 2016

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements:

The Authority categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. 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 the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- 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. 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). Unobservable inputs are developed based on the best information available in the circumstances and may include the Authority's own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the Authority's management. Authority management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to Authority management's perceived risk of that investment.

SANTA ROSA REGIONAL
RESOURCES AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from November 12, 2015 to June 30, 2016

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued):

The following is a description of the recurring valuation methods and assumptions used by the Authority to estimate the fair value of its investments. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are based on evaluated prices received by Authority's asset manager from third party service provider.

The Authority's investment in the money market mutual fund was determined by the asset manager obtaining inputs to their pricing models based on observable market inputs in active markets.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Held by Rancho:				
Money Market Mutual Fund	\$ 131,787	\$ -	\$ -	\$ 131,787

3. CAPITAL ASSETS:

Capital assets consist of the following at June 30, 2016:

	Balance November 12, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, being depreciated:				
Equipment	\$ -	\$ 54,204	\$ -	\$ 54,204
Less accumulated depreciation for:				
Equipment	-	(360)	-	(360)
Total capital assets, net	\$ -	\$ 53,844	\$ -	\$ 53,844

Depreciation expense for the depreciable capital assets was \$360 for the period from November 12, 2015 to June 30, 2016.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from November 12, 2015 to June 30, 2016

4. 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, 2016, 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 Authority 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.

5. CONTINGENCIES:

Treatment of Rancho's SWAP Obligations:

In connection with certain variable rate interest debt incurred by Rancho with respect to the Facilities, Rancho entered into SWAP Agreements for hedging interest rate risk. In accordance with the terms of the SWAP Agreements, Rancho could owe the SWAP providers early termination costs or payments should the SWAP Agreements be terminated before their expiration on August 15, 2031. To reduce the cost of acquiring the Facilities, Rancho has agreed to internally reallocate the debt connected to the Facilities rather than terminating the SWAP Agreements. In return for the reallocation, the Authority has agreed to reimburse Rancho for any early termination costs or payments due under the SWAP Agreements for the debt related to the Facilities should the SWAP Agreements be terminated for reasons beyond Rancho's control or option.

“SWAP Agreements” means that certain ISDA Master Agreement and related documents dated May 20, 2004 between Citibank, N.A. and Rancho and the Second Amended and Restated Confirmation dated as of March 19, 2008, evidencing a SWAP transaction in the notional amount of \$17,850,000, and that certain ISDA Master Agreement and related documents dated May 20, 2004, between UBS, AG, Rancho, and the Amended and Restated Confirmation dated as of May 27, 2008, evidencing a SWAP transaction with a notional amount of \$26,775,000.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from November 12, 2015 to June 30, 2016

5. CONTINGENCIES (CONTINUED):

California Public Employees Retirement System (CalPERS) Actuarial Liability:

Rancho presently 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. 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 will be computed as of the Authority's formation date and periodically redetermined over the life of the Authority except that 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.

6. SUBSEQUENT EVENTS:

Events occurring after June 30, 2016 have been evaluated for possible adjustments to the financial statements or disclosure as of August 30, 2016, which is the date these financial statements were available to be issued.