SANTA ROSA REGIONAL
RESOURCES AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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, 2017, 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, 2017 and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis*, 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 August 25, 2017 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
August 25, 2017

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 June 30, 2017 of the Santa Rosa Regional Resources Authority (the Authority). 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 Member Agencies, including the acquisition, construction and financing for capital projects.

The Authority was formed in November 2015, with fiscal year 2017 being the first full operational year. 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 SRWRF is currently owned and operated by Rancho, and is to be purchased by the Authority upon successful completion of acquiring the necessary debt financing. The Authority 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 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 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 wastewater 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 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 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 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 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 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, 2017. 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 operations for the Authority began in November 2015 and therefore the prior fiscal year financial statements only include eight months of operations. The current fiscal year financial statements will include twelve months of operations. The Authority's financial operations remained sound during the period. Sources of revenue were sufficient to cover combined operating and non-operating costs.

Sources of Revenue

Fiscal Year 2017 Compared to 2016

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. Rates per EDU per month for fiscal year 2017 were $17.91 for primary, secondary and collection treatment compared to prior year of $19.75 for a 9.3% decrease; tertiary treatment was $8.53 per EDU with prior year being $8.75 for a 2.5% decrease. The current fiscal year revenues totaled $5,338,052; an increase of $1,957,049 from the previous year due to operations for the current fiscal year representing 12 months compared to eight months in the prior year.

Combined Revenues by Category

Revenue Category	June 30, 2017	For eight months June 30, 2016	Dollar Change
Primary/ Secondary	$ 3,615,587	$ 2,343,023	$ 1,272,564
Tertiary	1,722,465	1,037,980	684,485
Total Treatment Revenues	$ 5,338,052	$ 3,381,003	$ 1,957,049

Functional Expenses

Fiscal Year 2017 Compared to 2016

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. Treatment costs were under budget for the year due to cost savings in energy, support and engineering allocations and deferred corrective maintenance. Budgeted corrective maintenance projects were reevaluated during the year, and approximately $160,000 of work has been identified to be delayed and addressed in conjunction with the plant rehabilitation efforts. Additionally, there was less emergency corrective maintenance work required on recycled pipelines compared to prior years on which the budget was based. Combined expenses for fiscal year 2017 totaled $4,880,835 resulting in an increase of $1,513,286 higher than prior year reflecting the full 12 months of operational expenses compared to prior year's eight months of expenses. Depreciation expense was $3,070 or 0.7% of assets, reflecting the purchase of depreciable capital assets during the prior year.

Combined Expenses by Category

Expense Category	June 30, 2017	For eight months June 30, 2016	Dollar Change
Primary/Secondary Treatment	$ 2,940,790	$ 2,298,830	$ 641,960
Tertiary Treatment	1,499,227	1,043,418	455,809
General and Administrative	437,748	24,941	412,807
Depreciation	3,070	360	2,710
Total Expenses	$ 4,880,835	$ 3,367,549	$ 1,513,286

Net Position

Fiscal Year 2017 Compared to 2016

Current assets consist of cash collected and owed to the Authority for treatment fees paid by member agencies. Current liabilities are amounts due to Rancho for contracted administration fees. See below for capital assets. The Net Position of the Authority as of June 30, 2017 is $474,557, an increase of $460,726 over prior year reflecting the savings in operational costs throughout fiscal year 2017 as discussed above.

Statement of Net Position

	As of June 30, 2017	As of June 30, 2016	Dollar Change
Assets			
Current	$ 1,898,348	$ 694,566	$ 1,203,782
Noncurrent			
Capital	50,774	53,844	(3,070)
Total Assets	1,949,122	748,410	1,200,712
Liabilities			
Current	1,474,565	734,579	739,986
Total Liabilities	1,474,565	734,579	739,986
Investment in Capital Assets	50,774	53,844	(3,070)
Unrestricted	423,783	(40,013)	463,796
Total Net Position	$ 474,557	$ 13,831	$ 460,726

Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2017	For eight months ended June 30, 2016	Dollar Change
Operating Revenues	$ 5,338,052	$ 3,381,003	$ 1,957,049
Operating Expenses	(4,880,835)	(3,367,549)	(1,513,286)
Net Non-operating Revenues	3,509	377	3,132
Change in Net Position	460,726	13,831	446,895
Change in Net Position	460,726	13,831	446,895
Net Position, July 1	13,831	-	13,831
Net Position, June 30	$ 474,557	$ 13,831	$ 460,726

Capital Assets

The Authority purchased a high-pressure sewer cleaner and an emergency generator fuel pipe as capital assets during the prior fiscal year. There were no capital asset additions for the current fiscal year.

Capital Assets

Asset Category	As of June 30, 2017	As of June 30, 2016
General Plant	$ 53,844	$ 54,204
Less: Accumulated Depreciation	(3,070)	(360)
Net Capital Assets	$ 50,774	$ 53,844

Economic Factors and Next Year's Budgets and Rates

The Santa Rosa Regional Resources Authority's Board of Directors and Executive Committee considered many factors when setting the fiscal year 2018 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 2018 on a proportionate share basis of total EDU's rather than on dollar per EDU rate as was previously in effect in the 2016 budget. The member agency allocation for fiscal year 2018 is based on EDUs totaling 16,919 with Elsinore, Rancho and Western having 5,086, 8,237 and 3,596 EDUs respectively. Therefore, operating expense allocation is distributed 30.1%, 48.7% and 21.3% for Primary and Secondary Treatment Expenses, respectively. Tertiary Treatment expense is 30.1% for Elsinore and 69.9% 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

Member Agency	Connected EDU's as of 1/31/2017	Primary & Secondary Treatment	Tertiary Treatment
Elsinore	5,086	30.1%	30.1%
Rancho	8,237	48.7%	69.9%
Western	3,596	21.3%	0.0%
Total	16,919	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, 2017

ASSETS :	
CURRENT ASSETS:	
Unrestricted Assets:	
Cash and cash investments (Note 2)	$ 1,047,462
Due from member agencies	850,886
TOTAL CURRENT ASSETS	1,898,348
NONCURRENT ASSETS:	
Capital assets (Note 3):	
Depreciable, net of accumulated depreciation	50,774
TOTAL ASSETS	1,949,122
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	1,474,565
NET POSITION:	
Investment in capital assets	50,774
Unrestricted	423,783
NET POSITION	$ 474,557

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, 2017

OPERATING REVENUES:	
Wastewater services:	
Primary and secondary	$ 3,615,587
Tertiary	1,722,465
TOTAL OPERATING REVENUES	5,338,052
OPERATING EXPENSES:	
Primary and secondary treatment	2,940,790
Tertiary treatment	1,499,227
General and administrative	437,748
Depreciation	3,070
TOTAL OPERATING EXPENSES	4,880,835
OPERATING INCOME	457,217
NONOPERATING REVENUES:	
Investment income	3,509
CHANGES IN NET POSITION	460,726
NET POSITION - BEGINNING OF YEAR	13,831
NET POSITION - END OF YEAR	$ 474,557

See accompanying notes to the basic financial statements.

SANTA ROSA REGIONAL RESOURCES AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 5,049,945
Cash payments to suppliers of goods and services	(4,137,779)
NET CASH PROVIDED BY OPERATING ACTIVITIES	912,166
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and investment earnings	3,509
NET INCREASE IN CASH AND CASH EQUIVALENTS	915,675
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	131,787
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,047,462
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 457,217
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	3,070
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(288,107)
Increase (decrease) in liabilities:	
Accounts payable	739,986
Total adjustments	454,949
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 912,166

THERE WERE NO NONCASH INVESTING, CAPITAL, OR FINANCING ACTIVITIES.

See accompanying notes to the basic financial statements.

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

As of June 30, 2017, except for the equipment purchased between November 12, 2015 and June 30, 2017, the Facilities continue to be owned by Rancho.

Under the Joint Exercise of Powers Agreement (the Agreement) creating the Santa Rosa Regional Resources Authority, 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 to pay off and defease the Rancho debt associated with the Facilities which amounted to a par value of $58,995,000 at June 30, 2017. The Member Agencies approved the Authority to acquire the Facilities from Rancho by issuing bonds to relieve Rancho's debt on the Facilities on August 24, 2017. The Authority has also applied for a State Revolving Fund (SRF) Loan and is currently processing it with the State Water Resources Control Board (the Control Board) to obtain financing on a capital rehabilitation project of the Facilities.

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 are being operated in accordance with the terms of the Agreement creating the Authority 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. 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.

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.

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in fair value that occur during a fiscal year and 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:

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.

1. REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. The Authority follows the capitalization policy set forth by Rancho, 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:

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, 2017.

h. Net Position

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

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.

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”.

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:

At June 30, 2017, the Authority's cash and investments of $1,047,462 are held by and accounted for separately and managed by Rancho in the Local Agency Investment Fund (LAIF). The LAIF account 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.

California Local Agency Investment Fund:

The Authority through Rancho 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).

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.

2. CASH AND INVESTMENTS (CONTINUED)

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer*
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.

3. CAPITAL ASSETS

Capital assets consist of the following at June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Equipment	$ 54,204	$ -	$ -	$ 54,204
Less accumulated depreciation	(360)	(3,070)	-	(3,430)
Total capital assets, net	$ 53,844	$ (3,070)	$ -	$ 50,774

Depreciation expense was $3,070 for the year ended June 30, 2017.

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, 2017, 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.

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 relating to Rancho’s 2008B Revenue bonds for a notional amount of $44,625,000. 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 internally reallocated 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.

5. CONTINGENCIES (CONTINUED)

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. 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.

6. SUBSEQUENT EVENTS

On August 24, 2017, the Authority issued Series 2017A and 2017B revenue bonds. Series 2017A tax exempt fixed rate revenue bonds were issued in the amount of $24,040,000 to finance the Facilities acquisition and improvement projects. The bonds have an interest rate of 3.00% to 5.00% with maturity dates through August 1, 2034. Series 2017B taxable fixed rate revenue bonds were issued in the amount of $31,190,000 to finance the Facilities acquisition. The bonds have an interest rate of 1.50% to 3.65% with maturity dates through August 1, 2031.