

**SANTA YNEZ RIVER WATER
CONSERVATION DISTRICT
JUNE 30, 2020
FINANCIAL STATEMENTS**



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Santa Ynez River Water Conservation District:**

Report on the Financial Statements

We have audited the accompanying financial statements of the Santa Ynez River Water Conservation District (the "District") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District'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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund of the District, as of June 30, 2020, and the respective changes in net position 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 on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Supplemental Schedule of Revenues and Expenses – Actual and Budget on page 30 and the list of Board of Directors on page 31 is presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Supplemental Schedule of Revenues and Expenses – Actual and Budget is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedule of Revenues and Expenses – Actual and Budget is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The list of Board of Directors has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 30, 2021 on our consideration of Santa Ynez River Water Conservation District's internal control over financial reporting and 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 the 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 District's internal control over financial reporting and compliance.

Bartlett, Pringh & Wolf, LLP

Santa Barbara, California

April 30, 2021

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section provides Management's Discussion and Analysis of the Santa Ynez River Water Conservation District's financial performance for the fiscal year ended June 30, 2020. It includes: 1) Background and Discussion of Operations; 2) Revenues and Financial Reporting; 3) Overview of the Financial Statements; 4) Financial Highlights for fiscal years ended June 30, 2020 and 2019; and 5) Economic Factors and Next Year's Budget.

Background and Discussion of Operations

The District was formed in 1939 under the Water Conservation District Act of 1931 to protect the surface water rights and associated supplies of the citizens of the Santa Ynez Valley from diversion and export from the watershed to the South Coast of Santa Barbara County. This was in response to the construction of two dams on the Santa Ynez River by South Coast interests and plans to build a third which was subsequently constructed by the U.S. Bureau of Reclamation (Reclamation). In 2015, in response to the State of California's historic passage of significant groundwater legislation (Sustainable Groundwater Management Act or "SGMA") in 2014, the District took a leadership role in initiating activities to manage groundwater in the watershed.

District representatives participate in State Water Resources Control Board (SWRCB) activities regulating the underflow of the Santa Ynez River, implement various provisions of the SWRCB Orders protecting downstream water rights, and monitor activities by others with regard to the aforementioned agreements and SWRCB Orders. By SWRCB order, the District may call for the release of "water rights" water from the Cachuma Reservoir and manages the timing and rates of those flows in order to promote recharge along the river and on the Lompoc Plain. The District owns no facilities or meters to control or measure these flows, nor does it have any control over who pumps any groundwater recharged by those flows.

The District's activities in defending the surface water supplies of its constituents from use by outside interests and in implementing SGMA involve the application of technical, regulatory, and legal expertise to resolve surface and groundwater issues along the river and in the adjacent uplands. The District negotiated various agreements over the years with South Coast interests and Reclamation pertaining to the operation of the dams. These agreements have dealt with, among other things, the quantity and quality of water to be released for the benefit of downstream users, peak flow management, and endangered species.

The District monitors groundwater use and groundwater levels in the watershed and has managed groundwater studies in the Santa Ynez Uplands, Buellton Uplands and Lompoc Area Basins. Notably, an AB 3030 Groundwater Management Plan for the Buellton Uplands was developed and approved by the District and the City of Buellton in 1995. In accordance with SGMA, the District, working with its agency partners and constituents, established three Groundwater Sustainability Agencies (GSA) within the watershed and initiated activities to develop a Sustainable Groundwater Management Plan (GSP). Representatives of the eight partner agencies all agreed on the District taking an organizational and coordinating role to develop GSPs for all three GSAs to manage groundwater in the watershed.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues and Financial Reporting

The District's primary sources of revenue are *ad valorem* property taxes and groundwater pumping charges. Such charges are authorized to be levied "upon the production of groundwater from all water producing facilities...for the benefit of all who rely directly or indirectly upon the groundwater supplies ..." (Water Code Section 75522). The District derives about four percent of its revenue from investment income.

Property taxes are distributed by the County of Santa Barbara to the District according to a formula that was agreed upon in 1978. These taxes do not appear as a separate item on property tax bills but are part of the 1% tax limit on assessed valuation that was imposed State-wide by Proposition 13.

Groundwater Pumping Charges are set by the Board of Directors each year. For the fiscal year 2018-19 budget, these charges were significantly raised, with the effects showing up in the second half of the 2018-19 fiscal year, and in the first half of the 2019-20 fiscal year. In part, the increase in revenues was also due to an extra effort made to capture delinquent accounts in 2018. A similar effort is now underway. About 600 statements are mailed semi-annually at the end of June and December to well owners/operators so that they may self-report and submit payment for incurred groundwater pumping charges for the prior six months of water use. Water use may be calculated using either standard formulas based on crop or use category, or metered water use. (Water Code Section 7500 et seq.) There were no increases in pump charges for fiscal year 2019-20. The Board of Directors desires to keep future increases as small as possible, depending upon costs to protect the legal rights of properties in the District to both surface and groundwater.

Based on the foregoing, the District files its Financial Transaction Reports (FTR) with the State Controller's Office (SCO) under the Flood Control and Water Conservation category as a non-enterprise activity. The District should not be confused with the Santa Ynez River Water Conservation District (Special) Improvement District No. 1, which was formed by this District as a water purveyor and became a separate entity. As a separate entity, the ID No. 1 files its FTRs with the SCO under the water utility category as an enterprise activity.

Overview of the Financial Statements

The financial statements in this audit report include: 1) Government-wide Financial Statements, including Statements of Net Position and Statement of Revenues, Expenses and Changes in Net Position; 2) Fund financial Statements, including a Balance Sheet, Statement of Revenues, Expenses, and Changes in Fund Balance, and Reconciliations of these Statements to the Government-wide Financial Statements, for the District's major General Fund; and 3) Notes to the Basic Financial Statements. The Notes provide detailed information pertaining to significant accounting policies, cash and investments, property taxes, insurance, net assets, and contingencies. Because the District manages its finances in a single major fund, the Government-wide Financial Statements and Fund Financial Statements present the same financial data in accordance with different accounting policies and in different formats.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Highlights

Government-wide Financial Statement Analysis

**Summary of Net Position
As of June 30**

	2020	2019	2018	2020 - 2019 Change		2019 - 2018 Change	
				\$	%	\$	%
Assets:							
Current and other assets	\$ 2,637,774	\$ 2,631,488	\$ 2,320,054	\$ 6,286	0%	\$ 311,434	12%
Capital assets	23,000	-	-	23,000	100%	-	0%
Total assets	2,660,774	2,631,488	2,320,054	29,286	1%	311,434	12%
Liabilities:							
Current and other liabilities	145,648	86,906	90,221	58,742	40%	(3,315)	-4%
Total liabilities	145,648	86,906	90,221	58,742	40%	(3,315)	-4%
Net Position:							
Net investment in capital assets	23,000	-	-	23,000	100%	-	0%
Unrestricted - reserved	2,000,000	2,000,000	2,000,000	-	0%	-	0%
Unrestricted	492,126	544,582	229,833	(52,456)	-11%	314,749	58%
Total net position	\$ 2,515,126	\$ 2,544,582	\$ 2,229,833	\$ (29,456)	-1%	\$ 314,749	12%

**Summary of Activities
For the Year Ended June 30**

	2020	2019	2018	2020 - 2019 Change		2019-2018 Change	
				\$	%	\$	%
Revenue:							
Charges for services	\$ 549,164	\$ 555,327	\$ 341,770	\$ (6,163)	-1%	\$ 213,557	62%
Property taxes	320,145	301,645	304,939	18,500	6%	(3,294)	-1%
Grant revenue	457,484	-	-	457,484	100%	-	0%
Investment income	51,322	60,244	30,147	(8,922)	-15%	30,097	100%
Other revenue	893	3,629	-	(2,736)	-75%	3,629	100%
Total revenue	1,379,008	920,845	676,856	458,163	50%	243,989	36%
Expenses:							
Operating expenses	950,980	806,544	769,141	144,436	18%	37,403	5%
SGMA - pass through grant expense	457,484	-	-	457,484	100%	-	0%
Total expenses	1,408,464	806,544	769,141	601,920	75%	37,403	5%
Change in net position	(29,456)	114,301	(92,285)	(143,757)	-126%	206,586	-224%
Net position - beginning of year	2,544,582	2,430,281	2,322,118	114,301	5%	108,163	5%
Net position - end of year	\$ 2,515,126	\$ 2,544,582	\$ 2,229,833	\$ (29,456)	-1%	\$ 314,749	14%

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights (Continued)

Government-wide Financial Statement Analysis (Continued)

During the year ended June 30, 2020, the District's net position decreased by a total of \$29,456 (1%). This is due to expenses exceeding revenues. The District's revenues increased by \$458,163 (50%) due to grant income from the Department of Water Resource Proposition 1 grant. Expenses increased by \$601,920 (75%) due to Department of Water Resource Proposition 1 grant pass through expenses and increased Sustainable Groundwater Management Act expenses. The Department of Water Resources Proposition 1 grant supports the Sustainable Groundwater Management Act.

The District does not provide Other Post-employment Benefits (OPEB). Employees who retire from active service are not offered any medical, dental, vision, or prescription drug coverage.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 29 of this report.

Economic Factor's and Next Year's Budget

Of concern with the self-reporting system for the collection of groundwater pumping charges is the issue of equity: it is important to verify and establish that all wells within the District be registered, and that all wells producing water be assessed the appropriate groundwater pumping charges. This issue will become more visible as the Groundwater Sustainability Plans are completed, and charges or fees are then adopted by the Groundwater Sustainability Agencies to implement the adopted plans.

In September 2019, the State Water Resources Control Board (SWRCB) adopted a new Water Rights Order (WRO 2019-0148) which applies to the US Bureau of Reclamation operation of the Cachuma Project, which diverts about 25,000 to 30,000 acre-feet of water annually out of the Santa Ynez watershed to the south coast of Santa Barbara County. This new WRO contained some provisions that are beneficial to Santa Ynez watershed interests, but also mandated certain studies, the outcome of which could have significant impacts on downstream water rights. As with previous SWRCB water rights orders, the District will maintain active advocacy and participation in the study, planning, and operational decisions of the Cachuma Project in order to ensure the preservation of the water rights belonging to downstream properties.

The federal National Marine Fisheries, acting under the US Congress Endangered Species Act (ESA), will be preparing a new Biological Opinion (BiOp) regarding the endangered Southern Steelhead, an anadromous form of rainbow trout species known as *O. mykiss*. In 2016 a draft BiOp was issued which contained provisions that were alarming to Santa Ynez River users, if not actually detrimental. Fortunately, this 2016 BiOp was never finalized, and never implemented.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factor's and Next Year's Budget (Continued)

Unlike the SWRCB, which must balance environmental concerns with water rights and economics, the ESA contains no such balancing provisions, but only focuses on what is required to protect endangered species. Currently, the District has assisted the US Bureau of Reclamation in the preparation of a Biological Assessment, which is the first step in the process for NMFS to issue another BiOp. Hopefully there will be a revised BiOp that will not be as draconian in its protective provisions as the draft 2016 version. The future costs to the District for participating in this process, and if needed challenging any resulting implementation in order to protect water rights, are unknown.

In order to ensure the ability to defend the water rights interests in the watershed, the District has set aside a contingency of \$1.6 million for the legal and engineering defense of water rights or the initiation of litigation if necessary. At this time, neither situation is expected to occur in the near future. However, that future is uncertain, and all effected parties are looking to see how the new SWRCB Water Rights Order will be implemented and/or enforced. The District also maintains a \$400,000 reserve for other unanticipated projects.

Unknown but planned for costs at this time include the implementation of three Groundwater Sustainability Plans that are now being prepared as part of the requirements set forth by the California Legislature in the Groundwater Sustainability Act. These plans are due in 2022. The District has obtained a \$1 million cost share grant from the State of California Department of Water Resources (DWR) to offset the \$3 million in costs, which are spread among the eight participating agencies. The County of Santa Barbara has assumed responsibility for a \$1 million share of the costs, helping to offset the burden to other participating agencies, including the District. The DWR has advised SGMA entities that there will likely be grants available for the implementation of the Groundwater Sustainability Plans. The District is prepared to apply for any grants that may be available.

For the 2020-21 Budget, the District expects only relatively small changes in total revenues and expenditures compared to the 2019-20 Budget, with no plans to increase Groundwater Pumping Charges. The Groundwater Pumping Charge is the only source of revenue over which the District has control. The tax revenue is entirely dependent upon the office of the County of Santa Barbara Tax Assessor, an independent elected position which more or less determines tax assessments according to statutory requirements. While the District does have some control over the 4% of the revenue derived from investment income, investments are restricted by statute. At this time the District has decided to invest primarily in the State of California Treasurer operated Local Agency Investment Fund (LAIF) and in the County of Santa Barbara operated Treasurer's Investment Pool (SBIF). Both provide liquidity, safety, and a recent rate of return on investment that is slightly more than the rate of inflation. Further SGMA grant payments are expected to be received in 2020 and 2021. These payments will help limit the District's reliance on its reserves that was experienced in prior years where a significant portion of the SGMA costs were borne by the District.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
STATEMENT OF NET POSITION
June 30, 2020

ASSETS

Current Assets:

Cash and cash equivalents	\$ 157,615
Investments	2,208,067
Accounts receivable	264,379
Interest receivable	7,293
Prepaid expenses	420
Total current assets	<u>2,637,774</u>

Capital assets, net of accumulated depreciation	<u>23,000</u>
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Total assets	<u>2,660,774</u>
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LIABILITIES

Current Liabilities:

Accounts payable and other accrued liabilities	33,211
Accrued salaries and benefits	16,152
Compensated absences payable	10,582
Grant reimbursements due to agencies	85,703
Total current liabilities	<u>145,648</u>

Total liabilities	<u>145,648</u>
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NET POSITION

Net investment in capital assets	23,000
Unrestricted, reserved for engineering and hydrology	1,600,000
Unrestricted, reserved for Sustainable Groundwater Management Act	400,000
Unrestricted	<u>492,126</u>
Total net position	<u>\$ 2,515,126</u>

See accompanying notes

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expenses)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
Functions / Programs:				
Governmental activities:				
Ground water conservation	\$ 1,408,464	\$ 549,164	\$ 457,484	\$ (401,816)
Total	<u>\$ 1,408,464</u>	<u>\$ 549,164</u>	<u>\$ 457,484</u>	<u>(401,816)</u>
General Revenues:				
Property Tax				320,145
Investment income				51,322
Other revenue				<u>893</u>
Total general revenues				<u>372,360</u>
Change in net position				(29,456)
Net Position - beginning of year				<u>2,544,582</u>
Net Position - end of year				<u>\$ 2,515,126</u>

See accompanying notes

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2020

	General Fund	2020 Total
<u>ASSETS</u>		
Cash and cash equivalents	\$ 157,615	\$ 157,615
Investments	2,208,067	2,208,067
Accounts receivable	264,379	264,379
Interest receivable	7,293	7,293
Prepaid expenses	860	860
	\$ 2,638,214	\$ 2,638,214
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 33,651	\$ 33,651
Accrued salaries and benefits	16,152	16,152
Grant reimbursements due to agencies	85,703	85,703
	135,506	135,506
Fund Balances:		
Committed for Sustainable Groundwater Management Act	400,000	400,000
Committed for engineering and hydrology	1,600,000	1,600,000
Unassigned	502,708	502,708
	2,502,708	2,502,708
Total liabilities and fund balances	\$ 2,638,214	\$ 2,638,214

See accompanying notes

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
For the Year Ended June 30, 2020

Total fund balance of governmental funds	\$ 2,502,708
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	23,000
Compensated absences reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	<u>(10,582)</u>
Net position	<u><u>\$ 2,515,126</u></u>

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020**

	General	2020 Total
Revenues:		
Ground water charges	\$ 549,164	\$ 549,164
Property tax	320,145	320,145
Grant revenue	457,484	457,484
Investment income	51,322	51,322
Other revenue	893	893
Total revenues	1,379,008	1,379,008
Expenditures:		
Employee salaries	368,285	368,285
Employee benefits	5,681	5,681
Retirement plan contributions	14,412	14,412
Outside services	3,416	3,416
Office expense	42,944	42,944
Director fees	2,100	2,100
Travel	5,477	5,477
Accounting	6,672	6,672
Insurance and worker's comp	10,131	10,131
Dues and LAFCO Fees	2,381	2,381
Legal	90,460	90,460
Engineering and environmental	33,840	33,840
Fishery - hydrology and consultants	29,595	29,595
Water rights	62,150	62,150
Groundwater charges program	34,626	34,626
Sustainable Groundwater Management Act	218,262	218,262
Sustainable Groundwater Management Act - pass through grant expenses	457,484	457,484
Special projects	17,068	17,068
Capital outlay	23,000	23,000
Miscellaneous expense	1,246	1,246
Total expenditures	1,429,230	1,429,230
 Net change in fund balance	 (50,222)	 (50,222)
 Fund balance - beginning of year	 2,552,930	 2,552,930
 Fund balance - end of year	 \$ 2,502,708	 \$ 2,502,708

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET POSITION OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020**

Net change in fund balances	\$ (50,222)
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Amounts reported in the Statement of Revenues, Expenses, and Changes in Net Position are different because:

Governmental funds report capital outlay as expenditures; however in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period this amount is:

Capital outlay, net of disposals	23,000
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Compensated absences reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

	(2,234)
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Change in net position	\$ (29,456)
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See accompanying notes

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

A) Nature of the Organization

The Santa Ynez River Water Conservation District was organized in 1939, pursuant to the provisions of the Water Conservation District Law of 1931, and the Water Code pursuant to State of California, Division 21. The annual budget, prepared in advance of each fiscal year, includes an amount deemed necessary to be provided by the levy of taxes within the District. The budget is sent to the County Auditor and County Board of Supervisors in compliance with the California Water Code Section 75351 and Government Code Section 53901.

In 2015, in response to the State of California's historic passage of significant groundwater legislation (Sustainable Groundwater Management Act or "SGMA") in 2014, the District took a leadership role in initiating activities to manage groundwater in the watershed and in 2017, three Groundwater Sustainability Agencies (GSAs) were formed.

B) Reporting Entity

The District has defined its reporting entity in accordance with the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards. These standards provide guidance for determining which governmental activities; organizations and functions should be included in the reporting entity and how information about them should be presented. The basic criterion for inclusion of a governmental unit in a governmental reporting entity are: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

The scope of this report extends exclusively to the financial information of Santa Ynez River Water Conservation District. The Governing Board of the District has no oversight responsibility over any other governmental unit or District. As such, the Board's governing authority, designation of management, ability to significantly influence operation, and accountability for fiscal matters extend only to the affairs of the District.

C) Basis of Accounting and Measurement Focus

This report has been prepared in conformity with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Organization and Significant Accounting Policies (Continued)

C) Basis of Accounting and Measurement Focus (Continued)

Basis of Accounting - Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared under the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. The District has no proprietary or fiduciary funds.

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Government-wide Financial Statements - Government-wide financial statements display information about the reporting government as a whole. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they are allocated).

Government-wide financial statements are presented using the *flow of economic resources measurement focus* and the *accrual basis of accounting*. Under the flow of economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

The Statement of Net Position presents the District's assets and liabilities, with the difference reported as net position. Net position is classified into three components as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Organization and Significant Accounting Policies (Continued)

C) Basis of Accounting and Measurement Focus (Continued)

- *Restricted* – This component of net position consists when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted, reserved net position represents unrestricted assets which are segregated by the Board of Directors for specific future uses.

When an expense is incurred for purposes for which both unrestricted and restricted resources are available for use, it is the District's policy to apply restricted assets first, then unrestricted resources.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current position.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District, in general, considers revenue available if they are collected within 120 days after year-end. Expenditures, other than interest on long-term debt are recorded when the related fund liability is incurred, if measurable. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long – term debt are reported as other financing sources. Inter-fund activity is eliminated for the government-wide financial statements.

The District reports the following major governmental funds:

- a. *General Fund*, accounts for the District’s primary services and is the primary operating unit of the District.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Organization and Significant Accounting Policies (Continued)

D) Budgetary Procedures

The District prepares an annual budget which includes estimates of its principal sources of revenue to be received during the fiscal year, as well as estimated expenditures and reserves needed for operation of District facilities.

E) Cash and Cash Equivalents

The District considers demand deposits, cash on hand, and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

F) Investments

Investments are reported at fair value, which is determined using selected basis. Short-term investments are reported at cost, which approximates fair value. Cash deposits and deposits with money market funds are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

G) Receivables

Receivables are primarily comprised of ground water service charges. Accounts receivable are considered to be fully collectible. Accordingly, no allowance has been made for doubtful accounts, and accounts receivable are shown at full value.

H) Capital Assets

Capital assets purchased by the District are recorded at cost. The District depreciates its fixed assets by the straight-line method over periods of 5 to 10 years, depending on the estimated useful life of the asset. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000, and estimated useful life in excess of two years.

I) Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts in the accompanying financial statements. Actual results could differ from those estimates.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Organization and Significant Accounting Policies (Continued)

D) Budgetary Procedures

The District prepares an annual budget which includes estimates of its principal sources of revenue to be received during the fiscal year, as well as estimated expenditures and reserves needed for operation of District facilities.

E) Cash and Cash Equivalents

The District considers demand deposits, cash on hand, and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

F) Investments

Investments are reported at fair value, which is determined using selected basis. Short-term investments are reported at cost, which approximates fair value. Cash deposits and deposits with money market funds are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

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SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Organization and Significant Accounting Policies (Continued)

J) Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Accrued compensated absences are included in accrued expenses on the balance sheet. Accumulated vacation and sick leave are recorded as an expense and a liability in the government – wide financial statements at the time the liability is incurred.

K) Fund Balance

In the fund financial statements, governmental funds report fund balance as restricted or unassigned based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

- a. *Restricted fund balance* – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- b. *Committed fund balance* – amounts that can only be used for specific purposes determined by formal action of the District's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- c. *Assigned fund balance* – amounts that are constrained by the District's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the District's special revenue funds.
- d. *Unassigned fund balance* – the residual classification for the District's General Fund that included amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditure incurred for specific purposes exceeds the amounts restricted to those purposes.

The Board of Directors establishes, modifies or rescinds fund balance commitments and assignments by approving contractual commitments, an ordinance or a resolution.

In the government-wide financial statements, restrictions of net positions are limited to outside third-party restrictions.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

L) Revenue Recognition – Groundwater Charges

The Board of Directors approve groundwater charges annually. On July 1 and January 1, the District mails groundwater statements to well customers for the preceding 6 month period. Customers are required to self-report their water usage and pay the groundwater charges within 30 days of the statement date.

Management estimates the amount of groundwater charges the District earned during the year based on subsequent period cash collections. These amounts are recorded as accounts receivable as of June 30, 2020. Customers who did not return their statement within 4 months of the statement date are estimated to be uncollectible and not included in accounts receivable as of June 30, 2020.

M) Revenue Recognition – Grant Revenue

As noted in Note 7, the District is a recipient of two grants that support the operations of three Groundwater Sustainability Agencies (GSA). Quarterly, the District summarizes the expenditures of each GSA and submits an invoice to the Department of Water Resources for reimbursement. After receiving the grant reimbursement, the District distributes the amount to each GSA. Grant revenue and a related expenditure are recognized when the reimbursement is received to reflect the pass-through nature of this grant.

N) Revenue Recognition – Property Taxes

Property taxes are collected on the tax rolls of the County of Santa Barbara. The District receives an allocation of general property taxes. The property taxes and service charges are recognized when they have been collected by the County and are available for distribution to the District.

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations – are established by the Assessor of the County of Santa Barbara (County) for the secured and unsecured property tax rolls; the utility property tax roll is valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From the base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

N) Revenue Recognition – Property Taxes (Continued)

Tax Collections – are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: the first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

Tax Levy Apportionments – Due to the nature of the District-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the County Auditor-Controller based primarily on the ratio that each District represented of the total District-wide levy for the three years prior to fiscal year 1979.

Tax Levies – are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as they exist at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Property Tax Administration Fees – The State of California FY 90-91 Budget Act, authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

O) Future Governmental Accounting Standards Board (GASB) Statements

The Governmental Accounting Standards Board Statements listed below will be implemented in future financial statements. These statements will be evaluated by the District to determine if they will have a material impact to the financial statements once effective.

Statement No. 84 <i>"Fiduciary Activities"</i>	The requirements of this statement are effective for periods beginning after December 15, 2019. (FY 20/21)
Statement No. 87 <i>"Leases"</i>	The requirements of this statement are effective for periods beginning after June 15, 2021. (FY 21/22)
Statement No. 89 <i>"Accounting for Interest Cost Incurred Before the End of a Construction Period"</i>	The requirements of this statement are effective for periods beginning after December 15, 2020. (FY 21/22)

Note 2 – Cash and Investments

Cash and investments are comprised of the following at June 30, 2020:

Deposits with financial institutions	\$ 157,615
Local Agency Investment Fund	1,818,440
Santa Barbara County Investment Pool	<u>389,627</u>
Total cash and investments	<u><u>\$ 2,365,682</u></u>

Investments Authorized by the District's Investment Policy

The District's investment policy authorizes the District to invest only in the Local Agency Investment Fund (LAIF), Santa Barbara County Investment Pool and FDIC insured accounts.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 – Cash and Investments (Continued)

Investments

The District participates in LAIF and the Santa Barbara County Investment Pool. LAIF and the Santa Barbara County Investment Pool are regulated by the California Government Code.

The District's investment in LAIF is reported in the accompanying financial statements at amounts based on the District's pro-rata share of the value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis. LAIF invests some of its portfolio in derivatives. Detailed information on derivative investments held by this pool is not readily available. The fair value of LAIF is approximately equal to the value of the pool shares.

The District's investment in the Santa Barbara County Investment Pool is reported in the accompanying financial statements at the amounts based upon the District's pro-rata share of the value provided by the Santa Barbara County Investment Pool for the entire Santa Barbara County Investment Pool portfolio, which is recorded on the amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by the Santa Barbara Investment Pool. The fair value of the Santa Barbara Investment Pool is approximately equal to the value of the pool shares.

Interest Rate Risk

The District did not have any investments with fair values that are considered to be highly sensitive to changes in interest rates.

Custodial Credit Risk

The 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 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 fair 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 2 – Cash and Investments (Continued)

Custodial Credit Risk (Continued)

None of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

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 the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the Santa Barbara County Investment Pool).

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. The District's investments in the Local District Investment Fund and Santa Barbara Investment Fund is not rated.

Note 3 – Risk Management

The District participates in the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority, for general and auto liability, public officials personal, error and omissions and employment practices liability, workers compensation, property damage, and fidelity insurance. The District pays a premium commensurate with the level of coverage requested. To obtain complete financial information contact SDRMA at 1112 I Street, Suite 300, Sacramento, CA 95814.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 4 – Capital Assets

Capital assets activity for the fiscal year ended June 30, 2020, is as follows:

	6/30/2019 Beginning Balance	Additions	Disposals	6/30/2020 Ending Balance
Depreciable capital assets:				
Leasehold improvements	\$ -	\$ 23,000	\$ -	\$ 23,000
Total depreciable capital assets	-	23,000	-	23,000
Less: accumulated depreciation	-	-	-	-
Net depreciable capital assets	\$ -	\$ 23,000	\$ -	\$ 23,000

Note 5 – Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. The District annually contributes 50% of employee contributions up to 3% of employee compensation. Effective July 1, 2020, this was increased to 5%. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All assets of the plan were placed in trust for the exclusive benefit of participants and their beneficiaries. The requirements of the IRC Section prescribes that the District no longer owns the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the District's financial statements. During 2020, the District contributed \$14,412 to the Plan.

Note 6 – Joint Ventures

Santa Ynez River Valley Basin Eastern Management Area GSA (EMA)

The District is a participant with the City of Solvang, Santa Ynez River Water Conservation District, Improvement District 1, and the County of Santa Barbara Water Agency in a joint venture to oversee the implementation of the Sustainable Groundwater Management Act requirements within the Eastern Management Area of the Santa Ynez River Valley Groundwater Basis. The Eastern Management Agency (EMA), a Groundwater Sustainability Agency (GSA), was created for this purpose. The EMA is governed by a committee which is comprised of one representative and an alternative from each participant. Voting is weighted as follows:

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6 – Joint Ventures (Continued)

Santa Ynez River Valley Basin Eastern Management Area GSA (EMA) (Continued)

Participant	Board Representation
County of Santa Barbara Water Agency	5 votes
Santa Ynez River Water Conservation District	3 votes
Santa Ynez River Water Conservation District, Improvement District #1	2 votes
City of Solvang	1 vote
Total	11 votes

All proposed actions or resolutions must be passed by a simple majority and significant actions, such as forming a Joint Power Agency agreement, require at least 70 percent vote and concurrence of each participant’s governing body. Under the terms of the Memorandum of Agreement dated April 27, 2017, the participating governments are required to pay their pro-rata share of the operating budget. During 2020, the District paid \$15,950 to the EMA, not including grant pass through payments described in Note 7. The District also provides project management and other administrative support for the EMA. Financial statements for the EMA can be obtained from the EMA’s administrative office at 3669 Sagunto Street, Suite 101, Santa Ynez, CA 93460.

Santa Ynez River Valley Basin Central Management Area GSA (CMA)

The District is a participant with the City of Buellton and County of Santa Barbara Water Agency in a joint venture to oversee the implementation of the Sustainable Groundwater Management Act requirements within the Central Management Area of the Santa Ynez River Valley Groundwater Basis. The Santa Ynez River Valley Basin Central Management Area GSA (CMA), a Groundwater Sustainability Agency (GSA), was created for this purpose. The CMA is governed by a committee which is comprised of one representative from each participant. Voting is weighted as follows:

Participant	Board Representation
Santa Ynez River Water Conservation District	1 vote
City of Buellton	1 vote
Total	2 votes

The County of Santa Barbara Water Agency is a non-voting participant. All proposed actions or resolutions must be passed by an unanimous vote. Under the terms of the Memorandum of Agreement dated January 11, 2017, the participating governments are required to pay their pro-rata share of the operating budget. During 2020, the District paid \$76,259 to the CMA not including grant pass through payments described in Note 7. The District also provides project management and other administrative support for the CMA. Financial statements for the CMA can be obtained from the CMA’s administrative office at 3669 Sagunto Street, Suite 101, Santa Ynez, CA 93460.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 6 – Joint Ventures (Continued)

Santa Ynez River Valley Basin Western Management Area GSA (WMA)

The District is a participant with the City of Lompoc, Vandenberg Village Community Services District, Mission Hills Community Services District and the County of Santa Barbara Water Agency in a joint venture to oversee the implementation of the Sustainable Groundwater Management Act requirements within the Western Management Area of the Santa Ynez River Valley Groundwater Basin. The Santa Ynez River Valley Basin Western Management Area GSA (WMA), a Groundwater Sustainability Agency (GSA), was created for this purpose. The WMA is governed by a committee which is comprised of one representative from each participant. Voting is weighted as follows:

<u>Participant</u>	<u>Board Representation</u>
Santa Ynez River Water Conservation District	4 votes
City of Lompoc	2 votes
Vandenberg Village Community Services District	1 vote
Mission Hills Community Services District	1 vote
Total	<u>8 votes</u>

The County of Santa Barbara Water Agency is a non-voting participant. Proposed actions or resolutions must be passed by a simple majority. Actions or resolutions to adopt budgets or any type of fee or charge require at least a 75 percent vote. Under the terms of the Memorandum of Agreement dated January 11, 2017, the participating governments are required to pay all costs incurred. During 2020, the District paid \$119,590 to the WMA, not including grant pass through payments described in Note 7. The District also provides project management and other administrative support for the WMA. Financial statements for the CMA can be obtained from the CMA's administrative office at 3669 Sagunto Street, Suite 101, Santa Ynez, CA 93460.

Note 7 – Department of Water Resources Proposition 1 and 68 Grants

During 2019, the District was awarded a \$1,000,000 cost share grant from the State of California Department of Water Resources Proposition 1 Grant for the purpose of the Santa Ynez River Valley Basin Groundwater Sustainability Plan planning and preparation. The grant supports the operations of the EMA, CMA and WMA. During the year, the District submitted \$508,315 in expenditures for reimbursement on behalf of these agencies. The Department of Water Resources withholds 10% for grant retention, which will be paid at the end of the grant program in 2022. As of June 30, 2020, the District has received \$457,484 in grant reimbursements. After receiving the grant reimbursement, the District distributes the amount to the EMA, CMA, and WMA. As of June 30, 2020, \$85,703, including money market account interest, was due to the EMA, CMA and WMA.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 7 – Department of Water Resources Proposition 1 and 68 Grants (Continued)

During 2020, the District distributed the grant reimbursements as follows:

EMA	\$	67,793
CMA		135,207
WMA		168,842
Total	\$	<u>371,842</u>

During 2020, the District was awarded a \$296,000 cost share grant from the State of California Department of Water Resources Proposition 68 Grant for the purpose of the Santa Ynez River Valley Basin Groundwater Sustainability Plan planning and preparation. The grant supports the operations of the CMA and WMA. During the year, the District did not submit any expenditures for reimbursement.

Note 8 – Contingent Liabilities

SWRCB Hearings

The District and other local water agencies are signatories to a 2001 Memorandum of Understanding (MOU) for Cooperation in Research and Fish Maintenance – Santa Ynez River with various federal and state agencies concerning the fishery in Santa Ynez River below Bradbury Dam. In addition, the District along with those other local, state and federal agencies is involved in ongoing quasi-legal proceedings before the State Water Resources Control Board (SWRCB) regarding Cachuma Project permits held by the United States Bureau of Reclamation on behalf of the Cachuma Member Units, including the release of water stored in the Cachuma Project facilities to downstream reaches of the Santa Ynez River.

The District and these other local agencies are conducting studies and constructing fish projects on the Santa Ynez River and associated tributaries in connection with the 2000 Biological Opinion issued by the National Marine Fisheries Service to Reclamation, Section 7 Re-consultation under the Endangered Species Act, the SWRCB proceedings and implementing the Lower Santa Ynez River Fish Management Plan, and the cost of those studies is a material annual expense of the District. The outcome of the re-consultation studies, Biological Opinions, and the SWRCB proceedings may affect the amount of water the District receives from the Cachuma Project in future years. The District is a participant in a Cooperation and Joint Defense Agreement and pays its direct costs of these activities.

In September 2019, the State Water Resources Control Board (SWRCB) adopted a new Water Rights Order (WRO 2019-0148) which applies to the US Bureau of Reclamation operation of the Cachuma Project. As with previous SWRCB water rights orders, the District will maintain active advocacy and participation in the study, planning, and operational decisions of the Cachuma Project in order to ensure the preservation of the water rights belonging to downstream properties.

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

Note 9 – Lease Commitment

The District entered into a lease agreement for office space in Santa Ynez, California beginning August 1, 2018 and expiring July 31, 2023. Monthly rent is \$1,500. Rent expense under the lease as of June 30, 2020 was \$18,000. Future minimum lease commitments for the lease are as follows for the years ending June 30:

2021	\$	18,000
2022		18,000
2023		18,000
2024		1,500
	\$	<u>55,500</u>

Note 10 – Contingencies

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economics and financial markets of many countries, including the geographical area in which the District operates.

In the ordinary course of conducting business, various legal proceedings may be pending, however, in the opinion of the District’s management, the ultimate disposition of these matters will have no significant impact on the financial position of the District.

Note 11 – Subsequent Events

Subsequent events have been evaluated through April 30, 2021, the date the financial statements were available to be issued.

Other Supplementary Information

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES - ACTUAL AND BUDGET
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>2020 Actual</u>	<u>2020 Budget</u>	<u>2020 Over/(Under)</u>
Revenues:			
Ground water charges	\$ 549,164	\$ 570,000	\$ (20,836)
Property taxes	320,145	310,000	10,145
Grant revenue	457,484	100,000	357,484
Investment income	51,322	50,000	1,322
Other revenue	893	-	893
	<u>1,379,008</u>	<u>1,030,000</u>	<u>349,008</u>
Expenditures:			
Employee salaries	368,285	373,000	(4,715)
Employee benefits	5,681	2,400	3,281
Retirement plan contributions	14,412	11,000	3,412
Outside services	3,416	10,000	(6,584)
Office expense	42,944	34,000	8,944
Director fees	2,100	4,000	(1,900)
Travel	5,477	6,000	(523)
Accounting	6,672	10,400	(3,728)
Insurance and worker's comp	10,131	9,200	931
Dues and LAFCO Fees	2,381	6,500	(4,119)
Legal	90,460	75,000	15,460
Engineering and environmental	33,840	55,000	(21,160)
Fishery - hydrology and consultants	29,595	40,000	(10,405)
Water rights	62,150	90,000	(27,850)
Groundwater charges program	34,626	50,000	(15,374)
Sustainable Groundwater Management Act	218,262	332,000	(113,738)
Sustainable Groundwater Management Act - pass through grant expenses	457,484	-	457,484
Capital outlay	23,000	-	23,000
Special projects	17,068	50,000	(32,932)
Miscellaneous expense	1,246	3,000	(1,754)
Total expenditures	<u>1,429,230</u>	<u>1,161,500</u>	<u>267,730</u>
Change in Fund Balance	<u>\$ (50,222)</u>	<u>\$ (131,500)</u>	<u>\$ 81,278</u>

See accompanying notes

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
BOARD OF DIRECTORS**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Cynthia Allen, President	Division 1	December 2022
J. Brett Marymee, Vice President	Division 5	December 2022
Steven Jordan	Division 2	December 2024
Mark Altshuler	Division 3	December 2024
Art Hibbits	Division 4	December 2022

See accompanying notes



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**To the Board of Directors
Santa Ynez River Water Conservation District:**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Santa Ynez River Water Conservation District (the "District"), which comprise the statement of net position and balance sheet – governmental funds as June 30, 2020, the related statement of activities, statement of revenue, expenditures and changes in fund balance for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 30, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Prior Findings and Responses as item 2019-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Prior Year Findings and Responses as items 2019-002, 2019-003, 2019-004 and 2019-005 to be significant deficiencies.

Compliance and Other Matters

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

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of prior findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Bartlett, Pringh + Wolf, LLP

Santa Barbara, California
April 30, 2021

SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2020

2019-001 Revenue Recognition

Prior Year Finding:

Revenues should be recognized in the period in which they are earned. The District was recognizing groundwater charges during the period in which the cash was received. An audit adjustment was made to record accounts receivable for revenue collected in fiscal year 2020 that pertained to 2019. The District's June 30, 2018 net position was also restated by \$200,448 for revenue that should have been recognized in prior periods.

Corrective Action Taken:

Management provided the schedule of ground water charges that should be recognized as of June 30, 2020.

2019-002 Expense Reimbursement Review and Approval

Prior Year Finding:

During the audit of employee reimbursements, it was noted that not all reimbursements were approved by the General Manager. It was also noted that the previous General Manager approved his own reimbursements. We recommend the District implement review procedures in which all employee reimbursements are approved by the General Manager. In addition, we recommend the General Manager's reimbursements be approved by a member of the Board of Directors prior to payment.

Corrective Action Taken:

Management implemented a review procedure in which all employee reimbursements are approved by the General Manager. In addition, the General Manager's reimbursements were approved by a member of the Board of Directors.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2020

2019-003 Monthly Bank Statement

Prior Year Finding:

During the audit, we noted that the monthly bank statements did not have documentation indicating the General Manager had reviewed or approved the statement. We suggest that unopened bank statements received in the mail be forwarded directly to the General Manager. The General Manager would then review the bank statements and canceled checks for any strange or unusual items and investigate these items should any be found. We also recommend that General Manger initial and date the bank statements as evidence of their review.

Corrective Action Taken:

The General Manager receives the bank statements unopened and reviews the bank statements and canceled checks. The General Manager initials and dates the bank statements as evidence of his review.

2019-004 Bank Reconciliations

Prior Year Finding:

The Outside Bookkeeper performs the bank reconciliation function by handwriting reconciling items on the bank statement. However, there is currently no procedure in place to review the bank reconciliation after it is completed. This practice would greatly enforce the checks and balances necessary for strong controls over cash. We recommend that the District implement a bank reconciliation template separate from the bank statement to standardize the bank reconciliation process. In addition, we suggest that the District Administrator and General Manager review the bank reconciliations for any unusual items, investigate and fully resolve any such items and document his or her approval by initialing the form.

Corrective Action Taken:

During the year, the District implemented a bank reconciliation template. The District Administrator and General Manager review the bank reconciliations monthly.

**SANTA YNEZ RIVER WATER CONSERVATION DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES**

For the Year Ended June 30, 2020

2019-005 Controls over Cash Disbursements

Prior Year Finding:

During the audit, we noted that not all invoices had documentation that the invoice was reviewed and approved prior to payment. We recommend that the District implement review procedures to ensure all invoices be approved by a department manager and the General Manager prior to payment. We recommend these approvals be documented by initials and a date on the invoice.

Corrective Action Taken:

Beginning in June 2019, the General Manager initials invoices as documentation of his review.