



Topic: **Authority Board Agenda Item 2.1**

2020 July 22

Subject: **2019 Financial Audit Report**

Requested Action:

Consider acceptance of the Financial Auditor's Report.

Detailed Description/Background:

Fechter and Company, CPA, was awarded a contract to conduct an audit of the Authority's financial information for the fiscal years 2016, 2017 and 2018. The audit for the fiscal years 2016 and 2017 were initiated in April 2018 and completed in early July. The fiscal year 2018 audit report was initiated in April 2019 and completed in July 2019.

The Authority approved Fechter and Company to conduct the fiscal year 2019 audit. It was started April 2020 and concluded June 2020.

The report for fiscal year 2019 concludes: "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2018, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America."

It should be noted current liabilities increased from \$2,146,939 as of December 31, 2018 to \$6,793,111 as of December 31, 2019, due primarily to an increase in the Authority's Participant Reimbursement Policy liability.

Prior Reservoir Committee Action:

None.

Fiscal Impact/Funding Source:

None.

Staff Contact:

Joe Trapasso

Attachments:

Attachment A – 2019 Financial Audit Report.

Attachment B – 2019 Management Report.

SITES PROJECT AUTHORITY
ANNUAL FINANCIAL REPORT
With
Independent Auditor's Report Thereon
DECEMBER 31, 2019

SITES PROJECT AUTHORITY

Annual Financial Report
December 31, 2019

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SITES PROJECT AUTHORITY

Organization of Authority and List of Board of Directors
December 31, 2019

Sites Project Authority (the Authority) was established on August 26, 2010, when seven regional entities, including several local water agencies and Counties, executed the Joint Exercise of Power Agreement. The primary purpose of the Authority, as stated in the agreement, is to pursue the development and construction of the Sites Reservoir Project, which has long been viewed as an ideal location for additional off stream storage to provide direct and real benefits to instream flows, the Delta ecosystem, and water supply. In keeping their commitment to move the project forward on behalf of the region, the Authority has spent the last nine years working towards this goal by engaging the public, various stakeholders, state and federal agencies and landowners, initiating the required environmental planning process, and conducting feasibility studies, among other efforts.

GOVERNING BOARD

| <u>Name</u> | <u>Office</u> | <u>Member Represented</u> |
|----------------|---------------------------------|----------------------------------|
| Fritz Durst | Chair | Reclamation District 108 |
| Gray Allen | Vice Chair | Placer County Water Agency |
| Gary Evans | Member | County of Colusa |
| Joe Marsh | Member | Colusa County Water District |
| Leigh McDaniel | Member | County of Glenn |
| Logan Dennis | Member | Glenn-Colusa Irrigation District |
| Jeff Harris | Member | City of Sacramento |
| Jeff Sutton | Member | Tehama-Colusa Canal Authority |
| Doug Parker | Member | Westside Water District |
| Jamie Traynham | Treasurer | TC 4 Districts |
| Greg Johnson | Member - Non-Voting | Western Canal Water District |
| Don Bader | Cost-Share Partner - Non-Voting | U.S. Bureau of Reclamation |
| Rob Cooke | Ex-Officio - Non-Voting | CA Department of Water Resources |

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sites Project Authority
Maxwell, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sites Project Authority (the Authority), as of and for the year ended December 31, 2019, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 opinions.

Board of Directors
Sites Project Authority
Maxwell, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2019, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information, and the budgetary comparison schedules, as listed in the 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 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2020, 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.

Fechter & Company
Certified Public Accountants

A handwritten signature in black ink that reads "Fechter & Company, CPAs". The signature is written in a cursive, flowing style.

Sacramento, California
June 15, 2020

SITES PROJECT AUTHORITY

Management's Discussion and Analysis December 31, 2019

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Sites Project Authority (the Authority) provides an introduction to the financial statements of the Authority for the year ended December 31, 2019, and a comparison to the prior audited financial statements for the year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The Authority's assets exceed liabilities by \$5,898,590 as of December 31, 2019.
- The Authority's revenues exceeded expenditures by \$4,436,226 for the year ending December 31, 2019. The Authority's largest expense was for professional services. Professional services were 67% of total expenses for the year ending December 31, 2019.

Required Financial Statements

This annual report consists of a series of financial statements. The *Statement of Net Position* and the *Statement of Activities* provide information about the activities and performance of the Authority using accounting methods similar to those used by private sector companies.

The *Statement of Net Position* includes all of the Authority's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority. All of the current period's revenue and expenses are accounted for in the *Statement of Activities*. This statement measures the success of the Authority's operations over the past year and can be used to determine if the Authority has successfully recovered all of its costs through its revenues. This statement can also be used to evaluate profitability and credit worthiness.

More detailed information about the Authority's most significant funds – not the Authority as a whole, is provided in the fund financial statements. Funds are accounting devices the Authority uses to keep track of specific sources of funding and spending on particular programs. The *Balance Sheet* for governmental funds presents financial information by fund types showing money left at year-end available for spending. The *Statement of Revenues, Expenditures, and Changes in Fund Balances* for all governmental fund types focuses on how money flows into and out of the various funds.

Financial Analysis of the Authority

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

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's

SITES PROJECT AUTHORITY

Management's Discussion and Analysis December 31, 2019

net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State regulations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Statement of Net Position

| | <u>2019</u> | <u>2018</u> | <u>Change</u> |
|----------------------|---------------------|---------------------|---------------------|
| Assets | | | |
| Cash and investments | \$ 7,342,108 | \$ 3,567,974 | \$ 3,774,134 |
| Other current assets | 5,349,593 | 41,329 | 5,308,264 |
| Total Assets | <u>12,691,701</u> | <u>3,609,303</u> | <u>9,082,398</u> |
| Liabilities | | | |
| Current liabilities | <u>6,793,111</u> | <u>2,146,939</u> | <u>4,646,172</u> |
| Total Liabilities | <u>6,793,111</u> | <u>2,146,939</u> | <u>4,646,172</u> |
| Net Position | | | |
| Unrestricted | <u>5,898,590</u> | <u>1,462,364</u> | <u>4,436,226</u> |
| Total Net Position | <u>\$ 5,898,590</u> | <u>\$ 1,462,364</u> | <u>\$ 4,436,226</u> |

As discussed earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$5,898,590 and \$1,462,364 as of December 31, 2019 and 2018, respectively.

The largest portion, 58%, of the Authority's assets was cash in bank as of December 31, 2019.

Current liabilities increased from \$2,146,939 as of December 31, 2018, to \$6,793,111 as of December 31, 2019, due primarily to an increase in the Authority's Participant Reimbursement Policy liability.

At the end of fiscal years 2019 and 2018, the Authority showed a positive balance in its unrestricted net position of \$5,898,590 and \$1,462,364, respectively.

SITES PROJECT AUTHORITY

Management's Discussion and Analysis December 31, 2019

Statement of Activities

| | <u>2019</u> | <u>2018</u> | <u>Change</u> |
|-------------------------------|---------------------|-----------------------|----------------------|
| General Revenues | | | |
| Membership Admin/Authority | \$ 506,294 | \$ 691,795 | \$ (185,501) |
| Membership - Water | 11,456,740 | - | 11,456,740 |
| Prop 1 funding | 8,080,794 | - | 8,080,794 |
| Interest revenue | 121,535 | 1,183 | 120,352 |
| Total Revenues | <u>20,165,363</u> | <u>692,978</u> | <u>19,472,385</u> |
| Operating Expenses | | | |
| Authority/Admin | 494,930 | 427,934 | 66,996 |
| Reservoir | 15,234,207 | 5,951,648 | 9,282,559 |
| Total Expenditures | <u>15,729,137</u> | <u>6,379,582</u> | <u>9,349,555</u> |
| Change in Net Position | <u>\$ 4,436,226</u> | <u>\$ (5,686,604)</u> | <u>\$ 10,122,830</u> |

The *Statement of Activities* shows how the Authority's net position changed during the periods. In the case of the Authority, net position increased by \$4,436,226 for the year ending December 31, 2019, and decreased by \$5,686,604 for the year ending December 31, 2018, respectively.

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

Total revenue, which consisted of member dues and assessments, increased by \$19,472,385 from the year ending December 31, 2018, to the year ended December 31, 2019, due primarily to the billing of Phase 2 of the Project (\$11.6 million) and Prop 1 funding (\$8.1 million). Total expenses also increased by \$9,349,555 from the year ending December 31, 2018, to the year ended December 31, 2019, to match the Authority's scope of work in 2019.

Authority/Admin expenses comprised 3.15% and 6.71% of total expenses for the years ending December 31, 2019 and 2018, respectively. Reservoir expenses comprised 96.85% and 93.29% of total expenses for the years ending December 31, 2019 and 2018, respectively.

General Fund Budgetary Highlights

The Authority's total budget for the General Fund for the year ended December 31, 2019, showed excess revenues over expenditures of \$258 compared to the actual amount of \$24,264. The difference was primarily due to the determination of critical tasks that were required to be postponed.

| | <u>Actual</u> | <u>Budget</u> | <u>Variance</u> |
|--------------------|------------------|---------------|------------------|
| Revenues | \$ 519,194 | \$ 515,000 | \$ 4,194 |
| Operating Expenses | 494,930 | 514,742 | (19,812) |
| Net Increase | <u>\$ 24,264</u> | <u>\$ 258</u> | <u>\$ 24,006</u> |

SITES PROJECT AUTHORITY

Management's Discussion and Analysis
December 31, 2019

Conditions Affecting Current Financial Position

The Authority continues to plan and expand project activities to build the large water infrastructure project. Expanding activities results in a continuation of increases to the annual financial budgets.

The California Water Commission's Early Funding Agreement (EFA) with the Authority was approved mid-2019 for the maximum amount payable by the State to not exceed \$40,818,884 for activities reasonably related to the completion of environmental documentation and permitting. In 2019, the Authority processed and received a State payment of \$2,769,021 towards the not to exceed amount for eligible activities. In 2020, the Authority will continue to prepare and submit EFA invoices for payment.

The current phase of the project is anticipated to be completed by August 31, 2020, and is fully funded. The Authority is planning to finalize the next phase of the project in mid-2020 to initiate work on September 1, 2020 through December 31, 2021. The current plan is to fund the next phase of the project through a Participants' cash call and additional received EFA dollars.

Future Plans for the Sites Reservoir Project

As an ongoing part of the EFA funding process, the Authority will continue to prepare and submit invoices for payment on a quarterly basis.

The Authority will continue to expand its governance and member participation.

The Authority will be developing a detailed work plan and financing plan for the remainder of Phase 2 through December 31, 2021.

The Authority will secure additional necessary professional services contracts such as engineering contracts to support the implementation of the Phase 2 Work Plan and beyond. Critical Phase 2 activities that need to be performed by the professional services includes further work to secure necessary environmental permits and agreements, additional operations simulation modeling, and detailed engineering work.

Requests for Information

This financial report is designed to provide the Authority's funding sources, customers, stakeholders, and other interested parties with an overview of the Authority's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Authority's Treasurer at P.O. Box 517, Maxwell, California 95955 or view the website of the Authority at www.sitesjpa.org.

**SITES PROJECT AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2019**

ASSETS

| | |
|----------------------------|--------------|
| Cash and investments | \$ 7,342,108 |
| Due from other governments | 35,293 |
| Grants receivable | 5,311,774 |
| Prepaid expenses | <u>2,526</u> |

TOTAL ASSETS

12,691,701

LIABILITIES

| | |
|----------------------------------|------------------|
| Accounts payable | 728,458 |
| Participant reimbursement policy | <u>6,064,653</u> |

TOTAL LIABILITIES

6,793,111

NET POSITION

| | |
|--------------|------------------|
| Unrestricted | <u>5,898,590</u> |
|--------------|------------------|

NET POSITION

\$ 5,898,590

The accompanying notes are an integral part of these financial statements.

**SITES PROJECT AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

GOVERNMENTAL ACTIVITIES:

EXPENSES:

| | |
|--------------------|--------------------------|
| Authority/Admin | \$ 494,930 |
| Reservoir | <u>15,234,207</u> |
| Total expenses | <u>\$ 15,729,137</u> |

GENERAL REVENUES:

| | |
|--|--------------------------------|
| Membership Admin/Authority | \$ 506,294 |
| Membership Water | 11,456,740 |
| Prop 1 funding | 8,080,794 |
| Interest revenue | <u>121,535</u> |
| Total general revenues | <u>20,165,363</u> |
| Change in net position | 4,436,226 |
| Net position, beginning of fiscal year | <u>1,462,364</u> |
| Net position at end of fiscal year | <u><u>\$ 5,898,590</u></u> |

The accompanying notes are an integral part of these financial statements.

**SITES PROJECT AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2019**

| | General Fund - Authority | Special Revenue - Reservoir | Total |
|--|--------------------------------|-----------------------------------|----------------------|
| ASSETS | | | |
| Cash and investments | \$ 504,957 | \$ 6,837,151 | \$ 7,342,108 |
| Due from other governments | 12,863 | 22,430 | 35,293 |
| Grants receivable | - | 5,311,774 | 5,311,774 |
| Prepaid expenses | 334 | 2,192 | 2,526 |
| TOTAL ASSETS | \$ 518,154 | \$ 12,173,547 | \$ 12,691,701 |
| LIABILITIES | | | |
| Accounts payable | \$ 51,526 | \$ 676,932 | \$ 728,458 |
| Participant reimbursement policy | - | 6,064,653 | 6,064,653 |
| Total liabilities | 51,526 | 6,741,585 | 6,793,111 |
| FUND BALANCES | | | |
| Fund balance: | | | |
| Assigned to development of the reservoir | - | 5,431,962 | 5,431,962 |
| Unassigned | 466,628 | - | 466,628 |
| Total fund balance | 466,628 | 5,431,962 | 5,898,590 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 518,154 | \$ 12,173,547 | \$ 12,691,701 |

The accompanying notes are an integral part of these financial statements.

SITES PROJECT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

| | General Fund - Authority | Special Revenue - Reservoir | Total |
|----------------------------------|--------------------------------|-----------------------------------|--------------|
| REVENUES | | | |
| Membership Admin/Authority | \$ 506,294 | \$ - | \$ 506,294 |
| Membership Water | - | 11,456,740 | 11,456,740 |
| Prop 1 funding | - | 8,080,794 | 8,080,794 |
| Interest revenue | 12,900 | 108,635 | 121,535 |
| | | | |
| Total revenues | 519,194 | 19,646,169 | 20,165,363 |
| | | | |
| EXPENDITURES | | | |
| Current: | | | |
| Accounting services | 8,527 | 34,111 | 42,638 |
| Audit fees | - | 11,892 | 11,892 |
| Administrative support | 13,437 | 53,749 | 67,186 |
| General manager | 50,532 | 385,369 | 435,901 |
| Insurance | 200 | 585 | 785 |
| Office expenses | 8,197 | 4,509 | 12,706 |
| Rent expense | - | 2,500 | 2,500 |
| Dues and Subscriptions | 15,799 | 6,981 | 22,780 |
| Professional fees | 395,821 | 10,064,129 | 10,459,950 |
| Reimbursements | - | 4,660,713 | 4,660,713 |
| Website, computer support | 2,182 | 8,729 | 10,911 |
| Miscellaneous | 235 | 940 | 1,175 |
| | | | |
| Total expenditures | 494,930 | 15,234,207 | 15,729,137 |
| | | | |
| Net changes in fund balances | 24,264 | 4,411,962 | 4,436,226 |
| | | | |
| Fund balances, beginning of year | 442,364 | 1,020,000 | 1,462,364 |
| | | | |
| Fund balances, end of year | \$ 466,628 | \$ 5,431,962 | \$ 5,898,590 |

The accompanying notes are an integral part of these financial statements.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2019

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Sites Project Authority (the Authority) was established as an independent special agency in August of 2010 under the Joint Exercise of Powers Act, California Government Code, Section 6500.

As of December 31, 2019, 11 public entities, filling 9 Board seats with 2 government agencies serving ex-officio positions and 2 Associate Members, were approved members of the Authority as follows:

| | |
|--|---|
| Reclamation District 108 | Westside Water District |
| Placer County Water Agency/ City of Roseville | Colusa County Water District |
| County of Colusa | Sacramento County Water Agency/ City of Sacramento |
| County of Glenn | California Department of Water Resources |
| Glenn-Colusa Irrigation District | TC 4 Districts (Associate Member) |
| Tehama-Colusa Canal Authority | Western Canal Water District (Associate Member) |
| U. S. Bureau of Reclamation | |

The Authority is a public entity district and therefore, falls under the guidelines of a special district governmental entity. The Authority is governed by a board of directors that consists of one representative of each member.

The Authority was developed with the purpose to effectively study, promote, develop, design, finance, acquire, construct, manage, and operate Sites Reservoir and the related facilities. The purpose of pursuing and developing the Sites Reservoir are to: (a) increase surface water storage and enhance water management flexibility in the Sacramento Valley, (b) provide flood control benefits, (c) improve conditions for fish and wildlife in the Sacramento Valley and (d) improve the operation of the State's water system.

Financial Statement Presentation: The *Statement of Net Position* and *Statement of Activities* display information about the primary government (the Authority). These statements include the financial activities of the overall government. These statements report the governmental activities of the Authority, which are normally supported by inter-governmental revenues. The Authority had no business-type activities as of and for the year ended December 31, 2019.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include operating grants. Revenues that are not classified as program revenues are presented instead as general revenues.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2019

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund financial statements of the Authority are organized into one fund which is considered to be a separate accounting entity. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. The Authority reports two funds, the General Fund, which accounts for all revenues and expenditures necessary to carry out the administrative activities of the Authority, and the Reservoir Fund, a special revenue fund used to account for specific work activities for the development of the Sites Reservoir Project and is funded by contributions from the Project Agreement Members.

Basis of Accounting and Measurement Focus: Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations.

Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Charges for services, operating grants, and use of money and property are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Cash: The Authority's cash includes demand deposits. The Authority had no investments during the year ending December 31, 2019.

The governing board has not formally adopted any deposit and investment policies that limits the Authority's allowable deposits or investments and addresses the specific type of risk to which the Authority is exposed.

Due from Other Governments: Amounts due from other governments represent amounts due from member agencies that has been earned but not received by the end of the period.

As of December 31, 2019, the Authority has determined that all amounts are collectable and therefore, no doubtful account allowance was deemed necessary as of December 31, 2019.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2019

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets: The Authority defines capital assets as property, plant, equipment, and infrastructure assets with an initial individual cost of \$5,000 and a useful life of three years or more. As of December 31, 2019, the Authority had no capital assets.

Unearned Revenue: This represents amounts received from members that will be applied to future billings.

Revenue: The Authority's revenue is comprised of the following:

General Fund – Authority Revenue

Authority members pay an annual membership fee which is established by the Authority. The membership fee for 2019 was \$55,000 per member.

Special Revenue – Reservoir Fund

Revenue is recognized according to the Project's board-approved operating budget for each phase of the Project. The Project Agreement Members are billed in accordance with their pro-rata share of the budgeted costs for activities undertaken pursuant to the Project Agreement.

To withdraw from this Project Agreement, a Project Agreement Member shall give the Authority and other Project Agreement Members written notice of such withdrawal not less than 30 days prior to the withdrawal date. As of the withdrawal date, all rights of participation in this Project Agreement shall cease for the withdrawing Project Agreement Member. The financial obligation as prescribed in the Bylaws' Section 5.10 in effect on the withdrawal date, shall consist of the withdrawing Member's share of the following costs: (a) payment of its share of all non-contract costs incurred prior to the date of the written notice of withdrawal, and (b) those contract costs associated with funds approved.

Government-Wide Net Position:

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Government-wide net position is reported in three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets – This component consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2019

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unrestricted – This component consists of all other net position that does not meet the definition of “restricted” or “net investment in capital assets”, as defined above.

Governmental Fund Balance: In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by formal action of the Authority.

Assigned – Amounts that are designated by the Authority to be used for specific purposes, but are neither restricted nor committed. The board of directors has the authority to assign amounts to be used for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

Demand Deposits: The carrying amount and the bank balance of the Authority’s cash as of December 31, 2019, were \$7,342,108 and \$7,853,942, respectively. The Federal Deposit Insurance Corporation (FDIC) insures deposits up to \$250,000. As of December 31, 2019, \$7,603,942 was in excess of the insurance coverage.

Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The California Government Code and the Authority’s investment policy do not contain legal or policy requirements limiting exposure to custodial risk for deposits or investments. The California Government Code requires that a bank secures deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure the Authority’s deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2019

NOTE 3: PROFESSIONAL FEES

Professional fees for the year ended December 31, 2019, consisted of the following:

| | General Fund - Authority | Special Revenue - Reservoir | Total |
|---------------------------------|--------------------------------|-----------------------------------|----------------------|
| Env/Biological Services | \$ - | \$ 1,265,952 | \$ 1,265,952 |
| Environmental/Project Operation | - | 326,300 | 326,300 |
| Bond Counsel | 3,835 | 4,747 | 8,582 |
| Bus/Comm Manager | - | 236,373 | 236,373 |
| EPP Manager | - | 215,834 | 215,834 |
| Federal Government Affairs Supp | 25,000 | 25,000 | 50,000 |
| General Legal Counsel | 65,517 | 74,956 | 140,473 |
| Geotechnical Engineering | - | 193,371 | 193,371 |
| Legislative/Reg/Strategic | 55,000 | 33,000 | 88,000 |
| Program Ops Manager | - | 349,666 | 349,666 |
| Project Controls | - | 1,331,250 | 1,331,250 |
| Project Delivery Advisor | 2,970 | 1,035 | 4,005 |
| Project Integration | - | 2,378,561 | 2,378,561 |
| Communication | 191,653 | 194,107 | 385,760 |
| Cost Development Model | - | 12,753 | 12,753 |
| Cultural Study | - | 19,024 | 19,024 |
| Engineering & Technical Service | - | 244,092 | 244,092 |
| Env Planning/Permits Manager | - | 391,160 | 391,160 |
| Public Outreach & Engagement | 13,184 | 8,272 | 21,456 |
| Real Estate | - | 207,176 | 207,176 |
| Reservoir Operations | - | 25,574 | 25,574 |
| ROW/Land Management | - | 16,932 | 16,932 |
| Special Legal | - | 61,934 | 61,934 |
| Municipal Advisor | - | 176,709 | 176,709 |
| Operations/Simulation Modeling | - | 927,470 | 927,470 |
| Organizational Assessment | 38,662 | - | 38,662 |
| Permitting & Agreements | - | 1,269,631 | 1,269,631 |
| Project Operations | - | 73,250 | 73,250 |
| | <u>\$ 395,821</u> | <u>\$ 10,064,129</u> | <u>\$ 10,459,950</u> |

SITES PROJECT AUTHORITY

Notes to the Financial Statements
December 31, 2019

NOTE 4: RISK MANAGEMENT

The Authority is exposed to various risks and general liabilities. The Authority participates in a public entity risk pool as a member of Association of California Water Agencies Joint Powers Insurance Authority (ACWA-JPIA). Each ACWA-JPIA member agency shares surpluses and deficits proportional to their participation. The Authority pays retrospectively rated annual premiums to ACWA-JPIA for its insurance coverage and has met all obligations since participation began.

NOTE 5: PARTICIPANTS REIMBURSEMENT POLICY

According to the Authority's participants reimbursement policy, the participants who withdrew or decreased their participation in the project are entitled to a credit equal to the contribution they made up to the date of withdrawal or reduction. That credit was applied toward future contribution requirements or booked as a liability on the Authority's books to be paid when it is determined that such reimbursements will not have an adverse impact on the financial viability or overall implementation of the Project. The amount due to participants under the reimbursement policy at December 31, 2019, was \$6,064,653.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount of expenditures, if any, which may be disallowed by the grantor, cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

The Authority has outstanding contracts related to EIR/EIS and feasibility study. The remaining commitments on these contracts as of December 31, 2019, were minimal as the contracts can be canceled with a thirty-day notice.

NOTE 7: SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 15, 2020, the date which the financial statements were available to be issued. Based upon this evaluation, except for the following, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.

In January 2020, the virus SARS -CoC-2 was transmitted to the United States from overseas sources. This virus, responsible for the Coronavirus disease COVID-19, has proven to be extremely virulent with transmission rates as yet unknown. The economic impact in the State of California as yet has not been determined and therefore any potential impact on the Authority is not yet known.

REQUIRED SUPPLEMENTARY INFORMATION

**SITES PROJECT AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|--------------------------------------|------------------|------------|------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| REVENUES | | | | |
| Membership Admin/Authority | \$ 515,000 | \$ 515,000 | \$ 506,294 | \$ (8,706) |
| Interest revenue | - | - | 12,900 | 12,900 |
| | | | | |
| Total revenues | 515,000 | 515,000 | 519,194 | 4,194 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Accounting services | 6,300 | 6,300 | 8,527 | (2,227) |
| Audit fees | - | - | - | - |
| Administrative support | 24,000 | 24,000 | 13,437 | 10,563 |
| General manager | 71,640 | 71,640 | 50,532 | 21,108 |
| Insurance | 3,250 | 3,250 | 200 | 3,050 |
| Office expenses | 23,330 | 23,330 | 8,197 | 15,133 |
| Dues and Subscriptions | 5,000 | 5,000 | 15,799 | (10,799) |
| Professional fees | 315,222 | 315,222 | 395,821 | (80,599) |
| Reimbursements | - | - | - | - |
| Website, computer support | 6,000 | 6,000 | 2,182 | 3,818 |
| Miscellaneous | 60,000 | 60,000 | 235 | 59,765 |
| | | | | |
| Total expenditures | 514,742 | 514,742 | 494,930 | 19,812 |
| | | | | |
| Excess of revenues over expenditures | \$ 258 | \$ 258 | \$ 24,264 | \$ 24,006 |

See notes to required supplementary information.

**SITES PROJECT AUTHORITY
RESERVOIR FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---------------------------------------|-------------------|-------------------|---------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Membership Water | \$ 16,111,534 | \$ 13,032,023 | \$ 11,456,740 | \$ (1,575,283) |
| Prop 1 funding | 18,854,260 | 1,880,000 | 8,080,794 | 6,200,794 |
| Interest revenue | - | - | 108,635 | 108,635 |
| Total revenues | <u>34,965,794</u> | <u>14,912,023</u> | <u>19,646,169</u> | <u>4,734,146</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Accounting services | 35,692 | 46,800 | 34,111 | 12,689 |
| Audit fees | - | - | 11,892 | (11,892) |
| Administrative support | 24,000 | 43,200 | 53,749 | (10,549) |
| General manager | 304,470 | 283,500 | 385,369 | (101,869) |
| Insurance | - | - | 585 | (585) |
| Office expenses | 8,198 | 3,240 | 4,509 | (1,269) |
| Rent expense | 124,000 | - | 2,500 | (2,500) |
| Dues and Subscriptions | 4,000 | - | 6,981 | (6,981) |
| Professional fees | 32,368,676 | 13,020,319 | 10,064,129 | 2,956,190 |
| Reimbursements | 2,067,094 | 1,472,023 | 4,660,713 | (3,188,690) |
| Website, computer support | 10,182 | 5,760 | 8,729 | (2,969) |
| Miscellaneous | - | - | 940 | (940) |
| Total expenditures | <u>34,946,312</u> | <u>14,874,842</u> | <u>15,234,207</u> | <u>(359,365)</u> |
| Excess of revenues under expenditures | <u>\$ 19,482</u> | <u>\$ 37,181</u> | <u>\$ 4,411,962</u> | <u>\$ 4,374,781</u> |

See notes to required supplementary information.

SITES PROJECT AUTHORITY

Notes to the Required Supplementary Information
December 31, 2019

Note 1 - Budgetary Basis of Accounting

Budgets are prepared on the cash and expenditures or encumbrances basis. Revenues are budgeted in the year receipt is expected; expenditures are budgeted in the year that the applicable warrant requisitions are expected to be issued. The budget and actual financial statements are reported on the above basis, with no material differences between them.

Annual budget requests are submitted by the Authority's staff to the board of directors for preliminary review and approval. After public hearing, a final budget is approved by the board of directors, with a resolution adopting said budget. Copies of the approved budget are sent to all required agencies.

OTHER REPORTS

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
Sites Project Authority
Maxwell, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of Sites Project Authority, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

To the Board of Directors
Sites Project Authority

Compliance and Other Matters

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

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fechter & Company
Certified Public Accountants

A handwritten signature in black ink that reads "Fechter & Company, CPAs". The signature is written in a cursive, flowing style.

Sacramento, California
June 15, 2020

SITES PROJECT AUTHORITY
MANAGEMENT REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2019

SITES PROJECT AUTHORITY

Management Report
For the Year Ended December 31, 2019

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Board of Directors of the
Sites Project Authority
Maxwell, California

In planning and performing our audit of the financial statements of the Sites Project Authority for the year ended December 31, 2019, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We thank the Authority's staff for its cooperation on this audit.

Fechter & Company,
Certified Public Accountants



June 15, 2020
Sacramento, California

SITES PROJECT AUTHORITY
Required Communications
For the Year Ended December 31, 2019

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 3, 2020, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Authority financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our audit did not disclose any sensitive estimates affecting the financial statements.

SITES PROJECT AUTHORITY
Required Communications
For the Year Ended December 31, 2019

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustments, in our judgment, indicate matters that could have a significant effect on the Authority's financial reporting process:

Audit adjustments for the year ended December 31, 2019:

- To record additional payables of \$182,938 relating to 5 invoices that pertained to the year ended December 31, 2019.
- To record a grant receivable of \$1,957,712 for Prop 1 Funding received on May 14, 2020, which pertained to the year ended December 31, 2019.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 15, 2020.

Consultations with Other Independent Auditors

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

Issues Discussed Prior to Retention of Independent Auditors

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

SITES PROJECT AUTHORITY
Required Communications
For the Year Ended December 31, 2019

Difficulties Encountered in Performing the Audit

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

Other Matters

During our audit, we became aware of the following deficiencies in internal control, other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency:

1. Recording Expense Accruals: In order to present a more accurate picture of the Authority's operations, it is important to record revenues and expenditures in the period in which they were incurred, not necessarily when they were paid. During our audit of the Authority, we found 5 instances in which an expenditure had not been recorded in the proper period. We recommend that the Authority perform a more thorough review of transactions subsequent to year-end to accurately reflect revenues and expenditures in the correct period.
2. Written Financial Policies and Procedures: Financial policies can provide a solid foundation for sound fiscal practices by a local agency. They should be in writing and adopted by the governing body. As such, they provide:
 - a. A means through which the governing body can communicate its policies and goals to staff, the public, and others;
 - b. Direction to staff and standards against which current practices can be measured and changes in practices can be evaluated; and
 - c. A way to optimize credit for borrowing. Ratings agencies who assess local agencies' credit for borrowing review their written financial policies. Well-documented policies can mean higher rating grades and lower borrowing costs.

Board members and staff need to understand why they are doing the things they are doing and be committed to doing them correctly and completely. Written policies and procedures enhance this understanding. Specific policies will vary depending upon the nature and scope of a district's operations. Nevertheless, having a range of policies (from big picture to practical and operational) helps an agency chart a wise course financially and avoid operational missteps.

During the audit, we became aware that the Authority does not have written policies and procedures. We recommend that the Authority prepare written financial policies and procedures and make these available to all parties that initiate, authorize, and record transactions for the Authority.

Restriction on Use

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