

**WESTERN RIVERSIDE COUNTY
REGIONAL CONSERVATION AUTHORITY**

**BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Western Riverside County Regional Conservation Authority
Riverside, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Western Riverside County Regional Conservation Authority (Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* as of July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the budgetary comparison information on pages 34 through 35 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 November 9, 2016, 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.



Riverside, California
November 9, 2016

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Management's Discussion and Analysis

June 30, 2016

Our discussion and analysis of Western Riverside County Regional Conservation Authority's (the "Authority") financial performance provides narrative overview and analysis of the Authority's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

- The Authority's net position increased by \$24.0 million or 6.5% during the fiscal year. This is the amount by which total revenues exceeded total expenses for the year.
- Capital assets increased by \$20.9 million. Approximately 4,210 acres of conserved land were acquired during the year. Funding for the properties included MSHCP local development mitigation fees, Measure A funds, federal grants, state grants, and land donations from private and public entities.
- Total fund balances of the Authority's governmental funds were \$37.1 million at the close of the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net position* includes all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net position changed during the most recent fiscal year. It includes all the current year's revenues and expenses, regardless of the timing of related cash flows. The government-wide financial statements report the functions of the Authority that are principally supported by mitigation contributions, intergovernmental revenues, and charges for services. The governmental activities of the Authority include general government operations, management and monitoring, and land acquisition.

The government-wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the Authority's funds are governmental funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements; however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Management's Discussion and Analysis

June 30, 2016

funds with similar information presented for governmental activities in the government-wide financial statements. As a result, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and related statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the related statement of revenues, expenditures and changes in fund balances for the Authority's major governmental funds comprised of the General Fund, Capital Projects Fund and Permanent Endowment Fund. The governmental fund financial statements, including the reconciliation between the fund financial statements and the government-wide financial statements, can be found on pages 14-17 of this report.

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 18-32 of this report.

Other Information

The Authority adopts an annual appropriations budget for its General Fund and the Capital Projects Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

Government-wide Financial Analysis

As noted 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 \$395.8 million at the close of the most recent fiscal year.

Net Position

	As of June 30:		
	2016	2015	Change
Assets			
Capital assets	\$ 366,215,702	\$ 345,331,670	\$ 20,884,032
Other assets	41,037,381	37,685,163	3,352,218
Total assets	407,253,083	383,016,833	24,236,250
Liabilities			
Other liabilities	4,076,974	5,287,351	(1,210,377)
Long-term liabilities	7,405,456	6,005,253	1,400,203
Total liabilities	11,482,430	11,292,604	189,826
Net position			
Net investment in capital assets	359,735,534	340,176,391	19,559,143
Restricted	17,098,442	13,752,231	3,346,211
Unrestricted	18,936,677	17,795,607	1,141,070
Total net position	\$ 395,770,653	\$ 371,724,229	\$ 24,046,424

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Management's Discussion and Analysis

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- By far the largest portion of the Authority's net position, \$359.8 million (90.9%), reflects its investment in capital assets (i.e., land, buildings and equipment), less any related debt used to acquire those assets that are still outstanding. During the year, the Authority acquired 4,210 acres of land, increasing capital assets and the net investment in capital assets by \$19.6 million.
- A portion of the Authority's net position, \$17.1 million (4.3%), represents resources that are subject to external restrictions on how they can be used. The remaining balance of \$18.9 million (4.8%) is unrestricted and may be used to meet the Authority's ongoing obligations.

The Authority's total program and general revenues were \$29.7 million, while the total cost of all programs was approximately \$5.7 million. Total revenues increased by \$6.5 million (27.9%) whereas the total cost of all programs decreased by \$348.5 thousand (5.8%). Key elements of these changes are as follows:

Changes in Net Position

	For the Years Ended June 30:		
	2016	2015	Change
Revenues			
Program revenues:			
Charges for services	\$ 99,543	\$ 70,663	\$ 28,880
Operating grants/contributions	3,947,405	6,290,139	(2,342,734)
Capital grants/contributions	25,475,046	16,718,216	8,756,830
General revenues			
Unrestricted investment earnings	110,986	61,204	49,782
Other general	92,463	101,896	(9,433)
Total Revenues	29,725,443	23,242,118	6,483,325
Expenses			
General operations	456,763	376,988	79,775
Management and monitoring	2,481,129	2,283,560	197,569
Land acquisition	2,712,283	3,345,087	(632,804)
Interest	28,844	21,833	7,011
Total expenses	5,679,019	6,027,468	(348,449)
Increase in net position	24,046,424	17,214,650	6,831,774
Net position, beginning	371,724,229	354,509,579	17,214,650
Net position, ending	\$ 395,770,653	\$ 371,724,229	\$ 24,046,424

- Charges for services consisting of joint project reviews increased by 40.9%, from \$70.7 thousand in fiscal year 2015 to \$99.5 thousand in fiscal year 2016. The increase was caused by an increase in development which triggers an increase in joint project reviews conducted by the Authority.
- Operating grants and contributions decreased by \$2.3 million, or 37.2%. The decrease was primarily attributable to the lack of participating special entity funds in the current year. During the prior year, the Authority received \$2.4 million from Southern California Edison as a participating special entity to receive MSHCP coverage for two projects. Only \$10,137 was received in the current year toward a project that has yet to be finalized.

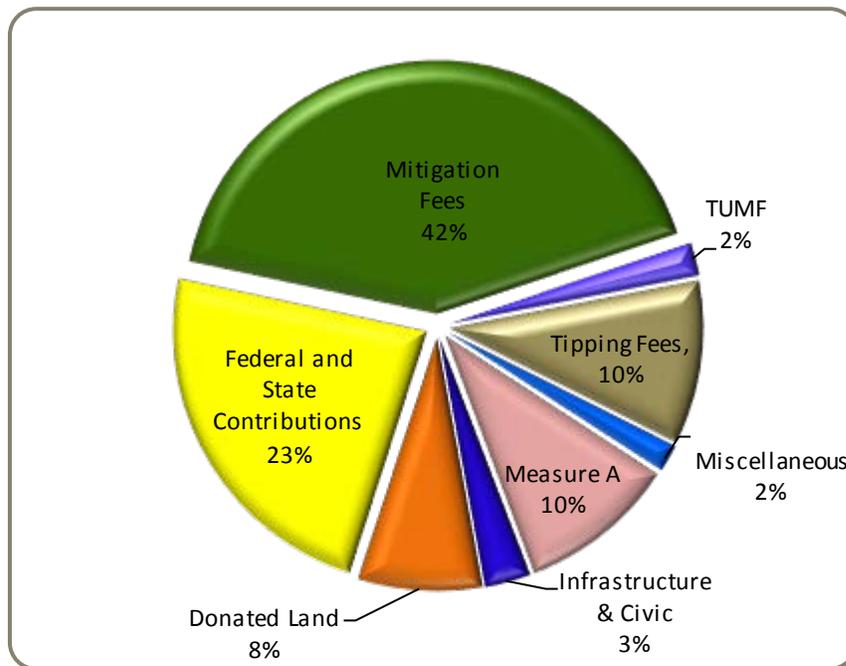
WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Management's Discussion and Analysis

June 30, 2016

- Capital grants and contributions increased by \$8.8 million, or 52.4%, as a result of the following:
 - Increase in donated land of \$2.0 million from prior year. In the current year, the Authority received three land donations and two conservation easements with an acquisition value of \$2.3 million and approximately 261.6 acres, whereas in fiscal year 2015, four land donations were received with a value of \$328.4 thousand and approximately 127 acres.
 - Federal and state grant capital grant contributions increased by \$4.2 million in the current year. In the current year, the Authority's federal and state contributions amounted to \$6.9 million. The Authority successfully closed escrow on six properties funded with grant funds with a combined acreage of 2,650. This is a large increase in comparison to prior year's funding of 471.0 acres for a grant funding of \$2.7 million.
 - Developer mitigation fees increased by \$2.8 million in the current year in comparison to prior year due to increased industrial and residential development in the current year.

Total Program and General Revenues by Source



- General operations expenses increased by \$79.8 thousand. The increase was attributable to an increase in contract payment for development project reviews conducted by the Authority. Some of the reviews were for private developers which generated additional charges for services. Many reviews were for Member Agency projects which do not generate revenues to the Authority.
- Management and monitoring expenses increased by \$197.6 thousand as a result of increased activity in the current year. Contractual labor dedicated to manage the conserved land and monitoring of the species increased by approximately \$98.6 thousand during the year. As conserved land increases, the cost associated with managing the land also increases. During the year, the Authority expensed about \$54.7 thousand in field supplies and contractual costs in the development of habitat for the Tricolor Blackbird, a covered species, which was fully funded by State funds. In addition, the Authority was required to pay special assessments of \$27 thousand for land owned. In the previous year, those assessments were waived by the special district responsible for those services.

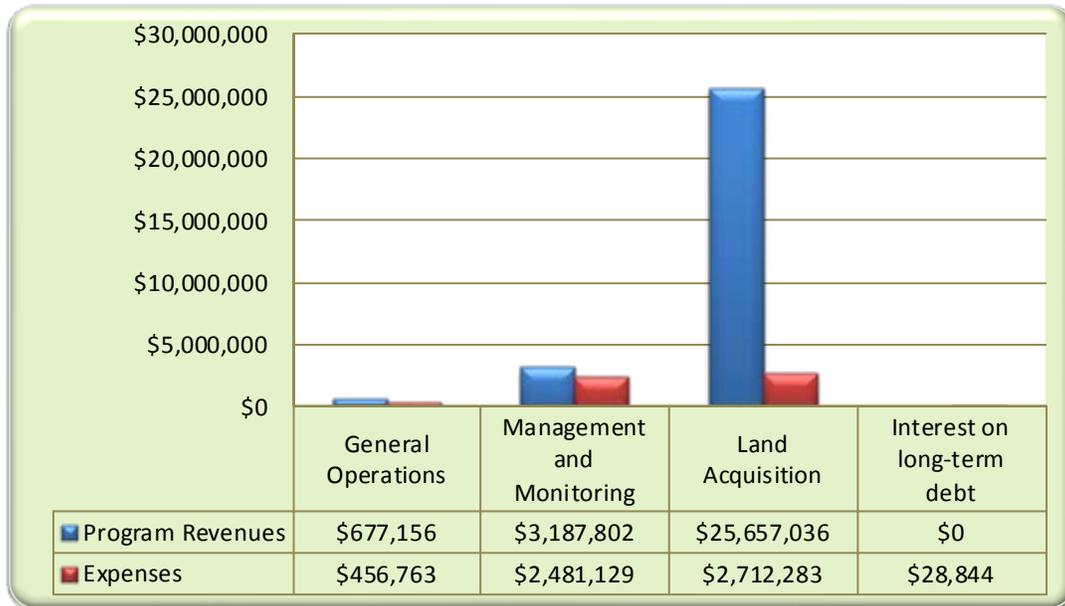
WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Management’s Discussion and Analysis

June 30, 2016

- Land acquisition expenses decreased by \$632.8 thousand or 18.9%. During prior year, the Authority recognized significant expenses which were not ongoing in the current year. Last fiscal year, the Authority recognized a legal settlement of \$136.8 thousand. Additionally, the Authority had savings in legal representation of approximately \$35 thousand in the land acquisition program. During fiscal year 2015, the Authority recognized a loss of approximately \$452 thousand in previously capitalized acquisition-in-process of certain lands which did not materialize into acquisition.

Expenses and Program Revenues - Governmental Activities



Financial Analysis of Governmental Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with legal requirements. The focus of the Authority’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority’s governmental funds reported combined fund balance of \$37.1 million, an increase of \$3.1 million in comparison with the prior year. Approximately 49.8%, or \$18.5 million, is unassigned, which is available for spending at the Authority’s discretion. About \$3.1 million, or 8.5%, is nonspendable from permanent endowment contributions. An additional \$14.9 million, or 40.1%, constitutes restricted fund balance for land acquisition and management and monitoring programs as outlined in Note 5 to the basic financial statements. The remaining \$605.9 thousand has been assigned by the Authority’s Management for future management and monitoring.

The General Fund is the chief operating fund of the Authority. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$18.5 million, while restricted fund balance was \$77.2 thousand for the management and monitoring programs. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 639.2% of total General Fund expenditures, while total fund balance represents approximately 641.9% of that same amount.

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Management's Discussion and Analysis

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The Capital Projects Fund had a \$1.9 million increase in fund balance during the current fiscal year from \$12.8 million in fiscal year 2015 to \$14.7 million in the current year. The increase was caused by an increase in development mitigation fee contributions from member agencies. The fund balance of \$14.7 million is restricted by external contributors for land acquisition and related costs.

Fund balance in the Permanent Fund increased by \$22.6 thousand. The increase resulted from interest earned during the fiscal year 2016.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year the original budgeted revenues were increased by \$64 thousand. An adjustment of \$64 thousand was to include increased in Infrastructure MSHCP fees of \$20 thousand, joint project reviews of \$30 thousand, and a \$14 thousand adjustment for state grant funds. Appropriations in the General fund were increased by \$64 thousand during the year to increase contractual labor and legal services in the General Fund.

Final budget compared to actual results. The most significant differences between estimated revenues and actual revenues were as follows:

- The budget for participating special entities of \$100 thousand didn't materialize. The actual revenue received was \$10.1 thousand, a shortfall of \$89.9 thousand.
- Landfill tipping revenues were budgeted at \$2.3 million. The out-of-county tonnage disposal this year surpassed the expectations. Thus, actual revenues of \$3.1 million exceeded the budget by \$809.4 thousand.
- Actual interest revenue doubled the expectations. The Authority originally budgeted \$55.2 thousand; however, actual interest from the Riverside County Treasury Investment Pool amounted to \$110.9 thousand.
- Actual expenditures for services and supplies were well under the budget by approximately \$52.8 thousand for general operations due to savings in litigation costs in comparison to the budget. Whereas the management and monitoring program achieved \$273.5 thousand of appropriations savings. Contractual savings of \$242.8 thousand primarily resulted from a management project scheduled for fiscal year 2016 which did not transpire and is currently on hold.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Management's Discussion and Analysis

June 30, 2016

Capital Assets and Debt Administration

The Authority's investment in capital assets for its governmental funds as of June 30, 2016 amounts to \$366.2 million. This investment in capital assets includes land, buildings and improvements, land improvements, vehicles, and equipment. The total increase in the Authority's assets was 6%.

Capital Assets

	June 30,	
	2016	2015
Land	\$ 360,622,829	\$ 339,693,486
Land acquisition in process	1,113,918	1,367,532
Conservation easements	3,235,173	2,926,533
Construction in progress	4,140	4,484
Buildings and improvements	1,054,757	1,054,757
Land improvements	449,179	442,627
Equipment and software	397,445	397,445
Total capital assets	366,877,441	345,886,864
Less accumulated depreciation	(661,739)	(555,194)
Total capital assets, net	\$ 366,215,702	\$ 345,331,670

During the year, the Authority acquired twenty-three new properties and two conservation easements with a combined total of 4,210 acres as follows:

- The Authority received three land donations from private developers. The donated land of approximately 218 acres had an acquisition value of \$2 million at the time of donation. In addition, the Authority received two conservation easements with an acquisition value of \$290 thousand and about 43.7 acres.
- Riverside County Transportation Commission provided \$3.0 million in Measure A funds toward acquisition of a 73.5 acre property.
- Six properties of approximately 2,650 acres were acquired with Federal funds (U.S. Department of the Interior, Fish and Wildlife Service) and State funds (California Department of Fish and Wildlife) of \$4.8 million and \$2.1 million, respectively.
- Additionally, the Authority acquired 13 properties totaling 1,224.8 acres using MSHCP local development mitigation fees.

Additional information on the Authority's capital assets can be found in Note 4 to the financial statements.

Long-term Debt

The Authority's long-term debt increased by \$1.4 million. As discussed in Note 8, the Authority entered into a purchase and sale agreement with a corporation to acquire land in phases with a 4% phased acquisition fee. As of June 30, 2016, the unpaid phased acquisition fee was \$1.3 million. In addition, net contract related payables increased by \$75 thousand during the year. This represents the net change in accrued annual leave balances earned by contracted staff.

As discussed in Note 8, the Authority has an installment sale note with a private seller and a loan with the County of Riverside which remain outstanding as of June 30, 2016. For additional information regarding long-term debt, see Note 8.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Management's Discussion and Analysis

June 30, 2016

Economic Factors and Next Year's Budget and Rates

The Authority's Plan contains a provision for an annual fee adjustment based on the Consumer Price Index (Los Angeles-Riverside-Orange County). On March 7, 2016, the Authority's Board of Directors approved an increase to the Mitigation Fees of 2.03%, effective July 1, 2016. This increase was incorporated into the Authority's Budget for fiscal year 2017 which was approved by the Board of Directors on May 2, 2016.

The U.S. Department of the Interior, Fish and Wildlife Service, has awarded the Authority approximately \$10.3 million in Federal Cooperative Endangered Species Conservation Fund Grant funds for program years 2012 through 2015. The grant funds are restricted for land acquisition costs only. As of June 30, 2016, \$6.8 million of the grant funds had been expended.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the office of the Western Riverside County Regional Conservation Authority, 3403 10th Street, Suite 320, Riverside, California, 92501, (951) 955-9700.

BASIC FINANCIAL STATEMENTS

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Statement of Net Position

June 30, 2016

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	\$ 34,796,789
Accounts receivable, net (Note 3)	2,353,285
Interest receivable	50,489
Restricted cash and investments (Note 2)	3,836,818
Capital assets (Note 4):	
Depreciable, net	1,239,642
Nondepreciable	364,976,060
Total Assets	<u>407,253,083</u>
LIABILITIES	
Current liabilities:	
Accounts payable	323,962
Contracted labor payable	116,187
Customer deposits	1,500
Unearned revenues (Note 7)	3,618,481
Accrued interest payable	16,844
Long-term liabilities (Note 8):	
Due within one year	309,145
Due after one year	7,096,311
Total Liabilities	<u>11,482,430</u>
NET POSITION (Note 5)	
Net investment in capital assets	359,735,534
Restricted for:	
Management and monitoring:	
Expendable	167,044
Nonexpendable	3,148,324
Land acquisition	13,783,074
Unrestricted	18,936,677
Total Net Position	<u>\$ 395,770,653</u>

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

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Statement of Activities

For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General operations	\$ 456,763	\$ 99,543	\$ 577,613	\$ -	\$ 220,393
Management and monitoring	2,481,129	-	3,187,802	-	706,673
Land acquisition	2,712,283	-	181,990	25,475,046	22,944,753
Interest	28,844	-	-	-	(28,844)
Total governmental activities	\$ 5,679,019	\$ 99,543	\$ 3,947,405	\$ 25,475,046	23,842,975
General Revenues:					
					110,986
					92,463
					<u>203,449</u>
					24,046,424
					<u>371,724,229</u>
					<u>\$ 395,770,653</u>

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

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Balance Sheet – Governmental Funds

June 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
ASSETS				
Cash and investments (Note 2)	\$ 18,322,268	\$ 16,394,976	\$ 79,545	\$ 34,796,789
Accounts receivable, net (Note 3)	433,905	1,919,380	-	2,353,285
Interest receivable	22,030	23,698	4,761	50,489
Restricted cash and investments (Note 2)	77,113	-	3,759,705	3,836,818
Total assets	<u>\$ 18,855,316</u>	<u>\$ 18,338,054</u>	<u>\$ 3,844,011</u>	<u>\$ 41,037,381</u>
LIABILITIES				
Accounts payable	\$ 164,104	\$ 159,858	\$ -	\$ 323,962
Contracted labor payable	30,963	85,224	-	116,187
Customer deposits	1,500	-	-	1,500
Unearned revenue (Note 7)	128,643	2,872,840	-	3,001,483
Total liabilities	<u>325,210</u>	<u>3,117,922</u>	<u>-</u>	<u>3,443,132</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue (Note 1)	-	528,558	-	528,558
Total deferred inflows of resources	<u>-</u>	<u>528,558</u>	<u>-</u>	<u>528,558</u>
FUND BALANCES (Note 5):				
Nonspendable	-	-	3,148,324	3,148,324
Restricted	77,211	14,691,574	89,833	14,858,618
Assigned	-	-	605,854	605,854
Unassigned	18,452,895	-	-	18,452,895
Total fund balances	<u>18,530,106</u>	<u>14,691,574</u>	<u>3,844,011</u>	<u>37,065,691</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 18,855,316</u>	<u>\$ 18,338,054</u>	<u>\$ 3,844,011</u>	<u>\$ 41,037,381</u>

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

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

**Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position**

June 30, 2016

Amounts reported for *governmental activities* in the statement of net position are different because:

Total fund balances - governmental funds	\$ 37,065,691
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	366,215,702
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	528,558
Unearned mitigation revenues exchanged for land, not reported in the funds (note 7).	(616,998)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Notes payable	(5,155,279)
Phased acquisition fee	(1,324,889)
Contract related payables	(925,288)
Accrued interest payable	(16,844)
Net position of governmental activities	<u>\$ 395,770,653</u>

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

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds**

For the Year Ended June 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
REVENUES				
Mitigation fees (Note 6)	\$ -	\$ 11,147,125	\$ -	\$ 11,147,125
Measure A	-	3,000,000	-	3,000,000
Transportation uniform mitigation fee	-	500,000	-	500,000
Infrastructure mitigation	567,476	290,430	-	857,906
Participating special entities	10,137	-	-	10,137
Landfill tipping fees	3,109,370	-	-	3,109,370
Federal and state contributions	54,764	6,896,000	-	6,950,764
Interest	110,986	111,288	23,668	245,942
Joint project review	99,543	-	-	99,543
Miscellaneous revenue	92,463	70,702	-	163,165
Total revenues	<u>4,044,739</u>	<u>22,015,545</u>	<u>23,668</u>	<u>26,083,952</u>
EXPENDITURES				
Current:				
General operations	446,067	-	-	446,067
Management and monitoring	2,440,668	-	1,030	2,441,698
Land acquisition	-	2,599,767	-	2,599,767
Debt Service:				
Interest	-	23,000	-	23,000
Capital outlay	-	17,467,222	-	17,467,222
Total expenditures	<u>2,886,735</u>	<u>20,089,989</u>	<u>1,030</u>	<u>22,977,754</u>
Net change in fund balances	1,158,004	1,925,556	22,638	3,106,198
Fund balances beginning of the year	<u>17,372,102</u>	<u>12,766,018</u>	<u>3,821,373</u>	<u>33,959,493</u>
Fund balances end of year	<u>\$ 18,530,106</u>	<u>\$ 14,691,574</u>	<u>\$ 3,844,011</u>	<u>\$ 37,065,691</u>

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

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Amounts reported for *governmental activities* in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 3,106,198
--	--------------

Governmental funds report capital outlays 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:

Expenditures for capital assets	17,467,222
Donated land	2,316,000
Less current year depreciation expense	(106,545)
Less loss on disposal of assets	(41,613)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Mitigation revenues recognized current year (note 7)	1,197,720
Change in unavailable funds	127,771

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in contract related payables	(75,314)
Change in other liabilities	136,750
Change in non-capitalized phased acquisition fee	(75,921)
Change in accrued interest payable	(5,844)
Change in net position of governmental activities	\$ 24,046,424

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

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

1. Reporting Entity and Significant Accounting Policies

The Western Riverside County Regional Conservation Authority (the “Authority”) was formed in January 2004 under a joint exercise of powers agreement between the County of Riverside (the “County”) and the Cities of Banning, Beaumont, Calimesa, Canyon Lake, Corona, Hemet, Lake Elsinore, Moreno Valley, Murrieta, Norco, Perris, Riverside, San Jacinto, and Temecula for the purpose of acquiring, administering, operating, and maintaining land and facilities for ecosystem conservation and habitat reserves for certain rare, threatened, and endangered species covered by the Western Riverside County Multiple Species Habitat Conservation Plan (MSHCP) under Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California. Amendment No. 3 to Joint Exercise of Powers Agreement dated April 7, 2009 annexed the Cities of Menifee and Wildomar. Amendment No. 4 to Joint Exercise of Powers Agreement dated May 5, 2011 annexed the City of Eastvale. Amendment No. 5 to Joint Exercise of Powers Agreement dated December 5, 2011 annexed the City of Jurupa Valley.

The Authority uses the County of Riverside’s accounting system to record all of its financial transactions. The accounting policies of the Authority conform to the accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Authority’s Board of Directors is composed of five members of the Riverside County Board of Supervisors and one elected official from each member city. The Authority’s Board of Directors is as follows:

Eugene Montanez	Chairman	City of Corona
Marion Ashley	Vice Chairman	County of Riverside, 5 th District Supervisor
George Moyer	Member	City of Banning
Brenda Knight	Member	City of Beaumont
Jeffrey Hewitt	Member	City of Calimesa
Tim Brown	Member	City of Canyon Lake
Clint Lorimore	Member	City of Eastvale
Linda Krupa	Member	City of Hemet
Verne Lauritzen	Member	City of Jurupa Valley
Natasha Johnson	Member	City of Lake Elsinore
Matt Liesemeyer	Member	City of Menifee
D. LaDonna Jempson	Member	City of Moreno Valley
Jonathan Ingram	Member	City of Murrieta
Kevin Bash	Member	City of Norco
David S. Rabb	Member	City of Perris
Andy Melendrez	Member	City of Riverside
Crystal Ruiz	Member	City of San Jacinto
Maryann Edwards	Member	City of Temecula
Ben Benoit	Member	City of Wildomar
Kevin Jeffries	Member	County of Riverside, 1 st District Supervisor
John Tavaglione	Member	County of Riverside, 2 nd District Supervisor
Chuck Washington	Member	County of Riverside, 3 rd District Supervisor
John Benoit	Member	County of Riverside, 4 th District Supervisor

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The *Government-wide Financial Statements* report information on all of the activities of the Authority. 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 when a liability is incurred, regardless of the timing of the related cash flows. Mitigation fees are recorded as revenue in the year they are earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The *Governmental Fund Financial Statements* are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to the County of Riverside contracted labor services, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

Interest, mitigation fees, and infrastructure mitigation contributions associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measurable and available only when cash is received by Authority.

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* is used to account for the acquisition of land and construction thereon for ecosystem conservation and habitat reserve. Operating expenditures incurred for accomplishing this purpose are also accounted for in this fund.

The *Permanent Fund* is used to account for resources that are restricted to the extent that only earnings, and not principal, may be used.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items such as unrestricted interest and miscellaneous income, not properly included among program revenues, are reported as general revenues.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

Investment Valuation

The Authority recognizes the fair value measurement of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority reported an unrealized gain in the amount of \$56,787 which is reported with other investment earnings as part of nonoperating revenues.

Capital Assets

Capital assets generally result from expenditures in the governmental fund. These assets are reported on the government-wide statement of net position but are not reported in the fund financial statements.

Capital assets are stated at cost. Capital assets that have been donated are stated at their estimated acquisition value at the date of donation. The Authority maintains a capitalization threshold of \$5,000 for equipment, intangible assets, land improvements and construction in progress and \$1 for real property and acquisitions in progress. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend the asset's life are not capitalized. Unimproved land and conservation easements are not depreciated. Land improvements, buildings and improvements, and equipment are depreciated on a straight line basis over the assets' estimated useful lives. The ranges of lives used for depreciation purposes for each capital asset class are as follows:

Buildings and Improvements	10 - 50 Years
Land Improvements	10 - 25 Years
Equipment	3 - 5 Years
Vehicles	6 Years
Website Development	15 Years

Deferred Inflow of Resources

Deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues of \$528,558 from transportation uniform mitigation fees as of June 30, 2016. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Fund Equity

In the fund financial statements, the governmental funds report nonspendable, restricted, committed, and assigned fund balances to show the level of constraint governing the use of the funds. Restricted fund balances are restricted for specific purposes by third parties or enabling legislation. Committed fund balances include amounts that can be used only for specific purposes determined by adoption of formal resolution by the Board. Assigned fund balances comprise amounts intended to be used by the Authority for specific purposes as determined by the Authority's management. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

Fund Equity (Continued)

then unrestricted resources. When unrestricted funds are available for the same purpose, it is the Authority policy to consider amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

New Accounting Pronouncements

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements as of July 1, 2015:

GASB Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this statement is to clarify the definition of fair value, establish general principles for measuring fair value, and enhancing disclosures about fair value measurements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles.

Future Accounting Pronouncements

The following GASB Statements have been issued prior to June 30, 2016. The Authority has not determined the effect of these statements in future financial statements:

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015 - except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This statement is effective for fiscal years beginning after June 15, 2017.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

Future Accounting Pronouncements (Continued)

GASB Statement No. 77, *Tax Abatement Disclosures*. This statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. This statement is effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement is effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. This statement is effective for fiscal years beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for fiscal years beginning after December 15, 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement is effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement is effective for fiscal years beginning after December 15, 2016.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, and No. 73. This statement is effective for fiscal years beginning after June 15, 2016.

2. Cash and Investments

Cash and investments are classified in the accompanying financial statements as follows:

Cash and investments	\$34,796,789
Restricted cash and investments	<u>3,836,818</u>
Total Cash and investments	<u>\$38,633,607</u>

At June 30, 2016, cash and investments consisted of the following:

Riverside County Treasurer's Pooled Investment Fund	<u>\$38,633,607</u>
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Pooled cash held for land adaptive management and the improvement of burrowing owl habitat is reported as restricted cash and investments:

Cash restricted for:	
Land adaptive management endowment	\$ 3,759,705
Burrowing owl habitat	<u>77,113</u>
Total cash and investments	<u>\$ 3,836,818</u>

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

2. Cash and Investments (Continued)

The Authority is a voluntary participant in the Riverside County Treasurer’s Pooled Investment Fund (RCTPIF). Oversight of the RCTPIF is conducted by the County Treasury Oversight Committee. The RCTPIF pools these funds with those of other entities and invests the cash as prescribed by the California Government Code. The fair value of the Authority’s investment in this pool, which approximates costs, is reported in the accompanying financial statements at amounts based upon the Authority’s pro-rata share of the fair value provided by the RCTPIF for the entire RCTPIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by RCTPIF, which are recorded on an amortized cost basis and reported as cash equivalents in the statement of net position. Deposits and withdrawals to and from RCTPIF are made on the basis of \$1 and not at fair value. Accordingly, under the fair value hierarchy, the investment with RCTPIF is uncategorized.

Interest earned on the pooled funds is apportioned quarterly based on the average daily balance of each fund. For information regarding interest rate risk, credit risk, concentration of credit risk, and custodial credit risk of the Riverside County Treasurer’s Pool, refer to the County of Riverside Comprehensive Annual Financial Report. Copies of the annual financial report may be obtained from the County Auditor-Controller, 4080 Lemon Street, 11th Floor, Riverside, California, 92501.

Authorized Investments

The Authority has adopted the Riverside County Statement of Investment Policy. The following are investments authorized under the Riverside County Statement of Investment Policy, which are more limited than those authorized under the California Government Code:

Authorized Investment Type	Maximum Maturity	Maximum % of Portfolio	Credit Quality (S&P/Moody's/Fitch)
U.S. Treasury	5 Years	100%	N/A
Federal Agencies	5 Years	100%	N/A
Municipal Bonds	4 Years	15%	Long Term AA-/Aa3/AA-
Local Agency Investment Fund (LAIF)	Daily Liquidity	\$50 million	N/A
Commercial Paper	270 Days	40%	Short Term A-1/P-1/F-1
Local Agency Obligations	3 Years	2.5%	Investment Grade
CalTrust Short Term Fund	Daily Liquidity	1%	N/A
Negotiable CDs	1 Year	25%	Short Term A-1/P-1/F-1
Collateralized Time Deposits	1 Year	2%	N/A
Repurchase Agreements	45 Days	40% max/ 25%	Short Term A-1/P-1/F-1
Reverse Repurchase Agreements	60 Days	10%	N/A
Medium Term Notes	3 Years	20%	AA/Aa2/AA
Union Bank Managed Rate Account	Daily Liquidity	10%	Fully collateralized
Money Market Mutual Funds	Daily Liquidity	20%	Long Term AAA (2 of 3 rating services)
Cash/Deposit Account	N/A	N/A	N/A

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

3. Accounts Receivable

Below is the detail of receivables for the General Fund and the Capital Projects Fund, including the applicable allowances for uncollectible accounts:

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
Due from other governments:			
Mitigation fees	\$ -	\$ 1,883,628	\$ 1,883,628
Infrastructure mitigation	576,472	-	576,472
County of Riverside	400,000	13,036	413,036
Transportation uniform mitigation fee	-	528,558	528,558
Subtotal	<u>976,472</u>	<u>2,425,222</u>	<u>3,401,694</u>
Due from Others:			
Charges for services	27,802	-	27,802
Others	-	100	100
Subtotal	<u>27,802</u>	<u>100</u>	<u>27,902</u>
Total receivable	<u>1,004,274</u>	<u>2,425,322</u>	<u>3,429,596</u>
Less allowance for uncollectible	(570,369)	(505,942)	(1,076,311)
Accounts receivable (net)	<u>\$ 433,905</u>	<u>\$ 1,919,380</u>	<u>\$ 2,353,285</u>

An allowance for uncollectible accounts has been established for delinquent accounts greater than 90 days and collection deemed doubtful. In the General Fund, an allowance has been created in the amount of \$557,625 in outstanding infrastructure mitigation contributions from member agencies and \$12,744 for outstanding charges for services. In the Capital Projects Fund, an allowance of \$505,942 has been established for outstanding mitigation fees from member agencies.

4. Capital Assets

Activity relating to capital assets is as follows:

	<u>Balance</u>				<u>Balance</u>
	June 30, 2015	Additions	Transfers	Deletions	June 30, 2016
Nondepreciable assets					
Land - contributed	\$ 190,933,598	\$ 5,026,000	\$ -	\$ -	\$ 195,959,598
Land - grants	27,327,152	6,896,000	-	-	34,223,152
Land - purchased	121,432,736	8,418,672 *	588,671	-	130,440,079
Land - acquisition in progress	1,367,532	372,186	(588,671)	(37,129)	1,113,918
Conservation easements -					
contributed	2,236,025	290,000	-	-	2,526,025
Conservation easements -					
purchased	690,508	18,640	-	-	709,148
Construction in progress	4,484	4,140	-	(4,484)	4,140
Total nondepreciable assets	<u>343,992,035</u>	<u>21,025,638</u>	<u>-</u>	<u>(41,613)</u>	<u>364,976,060</u>

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

4. Capital Assets (Continued)

	Balance June 30, 2015	Additions	Transfers	Deletions	Balance June 30, 2016
Depreciable assets					
Buildings and Improvements	\$ 1,054,757	\$ -	\$ -	\$ -	\$ 1,054,757
Land improvements	442,627	6,552	-	-	449,179
Equipment	179,260	-	-	-	179,260
Vehicles	180,540	-	-	-	180,540
Website development	37,645	-	-	-	37,645
Subtotal depreciable assets	1,894,829	6,552	-	-	1,901,381
Accumulated depreciation	(555,194)	(106,545)	-	-	(661,739)
Net depreciable assets	1,339,635	(99,993)	-	-	1,239,642
Total capital assets, net	\$345,331,670	\$ 20,925,645	\$ -	\$ (41,613)	\$366,215,702

* As discussed in Note 8, additions to land include \$1,248,968 in land acquisition fees for costs associated with the purchase of the first five phases of a multi-year agreement. This amount includes \$739,392 for phases acquired in prior years, and \$509,576 represents the fifth phase acquired in the current year. The unpaid acquisition fee amount has been recorded as long-term liabilities in the Statement of Net Position.

Depreciation expense for the year ended June 30, 2016 is \$106,545. Depreciation expense was charged to governmental functions as follows:

General operations	\$ 3,164
Management and monitoring	31,900
Land acquisition	71,481
Total depreciation	<u>\$ 106,545</u>

5. Fund Balances/Net Position

Fund Financial Statements

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Amounts that cannot be spent either because they are in nonspendable form or are required to be maintained intact. Within the permanent fund, the permanently nonspendable fund balance of \$3,148,324 is endowed for the accumulation of funds to be used for land adaptive management at the end of a 25-year land acquisition period.

Restricted Fund Balance - Amounts that are constrained to specific purposes by state or federal laws, or externally imposed conditions by grantors or creditors. In accordance with Government Code Section 66000, all mitigation funds have been restricted at year end for future land acquisition and related costs. In addition, external donor contributions of \$77,211 and \$21,246 have been received for improving burrowing owl habitat and fencing on specific property, respectively. Investment income earned on permanent funds of \$89,833 is restricted for management and monitoring of specific properties. Under California Probate Code Sections 18500-18509, the Authority is permitted to spend the realized and unrealized net appreciation of the fair market value of investments of the endowment fund over the historical dollar value of the fund.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

5. Fund Balances/Net Position (Continued)

Committed Fund Balance - Amounts that can only be used for specific purposes determined by adoption of a resolution of the Authority’s Board of Directors, the Authority’s highest level of decision-making authority. These committed amounts cannot be used for any other purpose unless the Board removes or changes the specified uses through the same type of formal action taken to establish the commitment. As of June 30, 2016, the Authority had no committed fund balances.

Assigned Fund Balance - Amounts intended to be used by the Authority for specific purpose but are not restricted or committed. The Authority’s Board of Directors delegates the authority to assign amounts to be used for specific purposes to the Authority’s Executive Director. The Authority’s fund balance includes \$605,854 in assigned fund balance toward the Permanent Endowment Fund.

Unassigned Fund Balance - These are residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories.

Fund Balance at June 30, 2016 is as follows:

Fund Balances:	General	Capital Projects	Permanent	Total
Nonspendable				
Permanent endowment funds	\$ -	\$ -	\$ 3,148,324	\$ 3,148,324
Restricted				
Management and monitoring				
Burrowing owls	77,211	-	-	77,211
Management endowment	-	-	89,833	89,833
Land acquisition programs				
Fencing	-	21,246	-	21,246
Non-development properties	-	228,379	-	228,379
Land acquisition costs	-	14,441,949	-	14,441,949
Subtotal restricted	<u>77,211</u>	<u>14,691,574</u>	<u>89,833</u>	<u>14,858,618</u>
Committed				
Management endowment	-	-	-	-
Assigned				
Management endowment	-	-	605,854	605,854
Unassigned	<u>18,452,895</u>	<u>-</u>	<u>-</u>	<u>18,452,895</u>
Total fund balances	<u><u>\$ 18,530,106</u></u>	<u><u>\$ 14,691,574</u></u>	<u><u>\$ 3,844,011</u></u>	<u><u>\$ 37,065,691</u></u>

Net Position

Net investment in capital assets of \$359,735,534 represents the value of capital assets held at June 30, 2016, less the balance outstanding on the note, loan payable and phased acquisition fee used to acquire capital assets. Of the restricted net position: \$167,044 is temporarily restricted for land and management programs such as improving burrowing owl habitat and management of certain acquired properties; \$13,783,074 is temporarily restricted for land acquisition including land cost, fencing on acquired land, and other related land costs associated with the purchase of the land; and \$3,148,324 is permanently restricted to accumulate funds to be used for land adaptive management. Unrestricted net position of \$18,936,677 represents funds available for general operations of the Authority.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

6. Mitigation Fees

The County and cities impose a development mitigation fee on all new development to support the acquisition of reserve lands. Mitigation fees collected are remitted to the Authority. Mitigation fee revenues consisted of the following for the year ended June 30, 2016:

<u>Member</u>	<u>Capital Projects Fund</u>
City of Banning	\$ -
City of Beaumont	651,511
City of Calimesa	173,266
City of Canyon Lake	19,520
City of Corona	530,181
City of Eastvale	2,019,108
City of Hemet	111,264
City of Jurupa Valley	1,163,396
City of Lake Elsinore	66,450
City of Menifee	953,267
City of Moreno Valley	430,841
City of Murrieta	802,800
City of Norco	22,739
City of Perris	1,633,652
City of Riverside	608,888
City of San Jacinto	172,989
City of Temecula	285,133
City of Wildomar	168,007
County of Riverside	1,334,113
Total	<u>\$ 11,147,125</u>

7. Unearned Revenue

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

<u>Fund Financials</u>	
<u>General Fund</u>	
Operating contributions advanced	\$ 128,643
<u>Capital Projects Fund</u>	
Infrastructure mitigation credit	2,864,223
Land acquisition contributions	8,617
Subtotal Capital Projects Fund	<u>2,872,840</u>
Total Governmental Funds	3,001,483
 <u>Government-Wide</u>	
Development mitigation fee credit	616,998
Total Government-Wide	<u>\$ 3,618,481</u>

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

7. Unearned Revenue (Continued)

Infrastructure mitigation credit

In December 2011, the County of Riverside advanced \$2,900,000 in future transportation infrastructure contributions to assist the Authority in the purchase of real property. The County is required to contribute 5% of certain construction costs of new roads or the widened portions of existing roads for capacity enhancements. The County and the Authority are required to track future usage of the credit based on eligible construction projects. The remaining credit balance at June 30, 2016 is \$2,864,223.

Development mitigation fee credit

The Authority entered into a development mitigation fee credit agreement with a development corporation in May 2013. The Authority granted \$3,150,000 in mitigation fee credits to the corporation in exchange for property owned by the corporation of approximately 309 acres. The mitigation fee credits may be used by the corporation to satisfy payment of future development fees within the Authority’s boundaries. During the current year, the corporation applied \$1,197,720 in fee credits toward mitigation fees. As of June 30, 2016, \$616,998 in fee credits remains unearned.

8. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Installment sale note	\$ 155,279	\$ -	\$ -	\$ 155,279	\$ 155,279
County of Riverside loan	5,000,000	-	-	5,000,000	-
Phased acquisition fee	-	1,324,889	-	1,324,889	-
Contract related payables	849,974	245,930	(170,616)	925,288	153,866
Total long-term debt	\$ 6,005,253	\$ 1,570,819	\$ (170,616)	\$ 7,405,456	\$ 309,145

Installment Sale Note

At June 30, 2016, the Authority had one outstanding installment sale note for the acquisition of land from a private seller. The note is non-interest bearing and is due on demand. At inception in fiscal year 2007, the Authority recorded a discount on the note payable using an effective interest rate of 3.5% percent. The discount was fully amortized in three years. The note is secured by the property acquired.

County of Riverside Loan

In December 2011, the Authority entered into a loan agreement with the County of Riverside for a principal amount of \$5,000,000. The proceeds of the note were used to fund certain land acquisitions. The Authority plans to repay the County loan using future income from landfill tipping fees, or other available sources. The loan provides for full repayment within 10 years with annual variable interest. Interest is due annually each January at a variable interest rate equal to the annual average rate of the Riverside County Treasurer’s Pooled Investment rate. Principal payment of \$1,000,000 is due annually each December, starting December 28, 2017. The outstanding balance at June 30, 2016 is \$5,000,000. The average rate of the Riverside County Treasurer’s Pooled Investment rate was 0.67% as of June 2016.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

8. Long-Term Liabilities (Continued)

Phased Acquisition Fee

In December 2011, the Authority entered into a purchase and sale agreement with a corporation to acquire land with an initial land value of \$42,000,000. The land is to be purchased in nine annual phases commencing in January 2012 and ending in January 2020. The Authority agreed to a phased acquisition fee to compensate the corporation for the deferment of the purchase. The acquisition fee is measured at 4% per annum, compounded annually, over the remaining phases not purchased commencing January 5, 2012. As of June 30, 2016, the Authority has acquired five phases from this agreement with a land value of \$22,000,000. The accumulated phased acquisition fee as of June 30, 2016 on the closed phases is \$1,324,889, which is payable to the corporation in January 2020. Of this amount, \$1,248,968 represents the acquisition fee measured as of the date of each phase closing date and has been capitalized as part of the land in Note 4. The remaining \$75,921 represents the financing cost accrued subsequent to the closing of each phase and has been recognized as an expense in the Statement of Activities as part of the land acquisition function.

Contract Related Payables

As discussed in Note 9, the employees working at the Authority are considered employees of the County of Riverside. County policy permits employees in some bargaining units to accumulate earned, but unused vacation, holiday, and sick pay benefits. For other bargaining units, annual leave is earned and accrued, but not vacation or sick leave. A liability for such leave is absorbed by the Authority for the contracted employees. As of June 30, 2016, the contractual liability to the County for leave balances accrued is \$925,288. The amount is due and payable to the County upon retirement or termination of current staff assigned to the Authority.

As of June 30, 2016, annual debt service requirements to maturity are as follows:

Year ending June 30	Installment	County of Riverside Loan		Phased Acquisition Fee	
	Sale Loan Principal	Principal	Interest	Principal	Interest
2017	\$ 155,279	-	\$ 33,688	-	-
2018	-	1,000,000	33,688	-	-
2019	-	1,000,000	26,950	-	-
2020	-	1,000,000	20,213	1,324,889	194,653
2021	-	1,000,000	13,474	-	-
2022	-	1,000,000	6,737	-	-
	<u>\$ 155,279</u>	<u>\$5,000,000</u>	<u>\$ 134,750</u>	<u>\$1,324,889</u>	<u>\$194,653</u>

9. Related Party Transactions

The Authority is involved in various business transactions with the County of Riverside, a member agency. In June 2007, the Authority entered into a service agreement with the County to provide staffing and other services. The contract expires May 2017. The employees working at the Authority are employees of the County working under contract. All benefits of the staff are established and amended through negotiations between the County and the respective unions. The Authority reimburses the County for the actual salaries and benefits of the staff dedicated to the Authority's daily operations. In addition the Authority reimburses the County for costs associated with office rental space (Note 10), real estate support, information technology support, central mail, parking services, and other administrative support expenditures as necessary.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY
Notes to Basic Financial Statements

9. Related Party Transactions (Continued)

During the year ended June 30, 2016, the Authority paid \$2,797,366 for such County services as follows:

Service	Amount
Contractual labor and benefits	\$ 1,897,600
Real estate services	613,051
Office space rental	194,701
Information technology	65,236
Other administrative support	26,778
	\$ 2,797,366

In January 2006, the Authority entered into a separate MSHCP Reserve Management agreement, with the Riverside County Regional Park and Open-Space District (“District”), a component unit of the County of Riverside. The District provides the Authority with management services of the Authority’s reserve lands including protection, maintenance and enhancements. The contract is to expire January 31, 2031 and is cancelable with written notice of six months. During the current year, the Authority paid \$844,955 to the District under this agreement.

As disclosed in note 8, the Authority and the County of Riverside entered into a loan agreement in the amount of \$5,000,000. The loan will be repaid in ten years with variable interest rate equal to the Riverside County Investment Treasury Pool rate. During the year, the Authority paid interest of \$23,000 to the County.

10. Operating Lease Obligations

The Authority leases office facilities under an operating lease with the County of Riverside. The lease is for 10 years, effective fiscal year 2009. Pursuant to the terms of the lease agreement, 2% annual rent increase shall occur each July 1. Total cost for the lease was \$194,701 for the year-ended June 30, 2016.

Future commitments under the operating leases agreement are as follows:

Fiscal Year	Amount
2017	\$ 198,595
2018	202,567
	\$ 401,162

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

11. Commitments and Contingencies

As of June 30, 2016 the Authority has entered into various land acquisition agreements with multiple private sellers to acquire properties in phases. The Authority has committed capital project funds to acquire land in the following fiscal years:

<u>Fiscal Year</u>	<u>Land</u>	<u>Phased Acquisition</u>
2017	\$ 7,131,364	
2018	3,251,508	
2019	3,048,960	
2020	11,048,960	6,631,989
2021	48,960	
2022-2026	103,599	
Total	<u>\$ 24,633,351</u>	<u>\$ 6,631,989</u>

As discussed in Note 8, the Authority has entered into a purchase and sale agreement to purchase land with a 4% phased acquisition fee. As of June 30, 2016, the Authority is committed to acquire four additional phases under this agreement. If purchased as scheduled, the phased acquisition fee will amount to \$6,631,989 to be paid in January 2020.

The Authority has entered into separate funding agreements with local governments and agencies to contribute \$15,676,500 toward the above land acquisition commitments.

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

12. Pollution Remediation

In prior years, a developer donated 4.57 acres of vacant land that partially overlaid a closed landfill called the Valle Vista Solid Waste Facility to the Authority. Heavy rain in December 2014 caused erosion to partially uncover remnants of the closed landfill. In July 2015, the Riverside County Department of Environmental Health Local Enforcement Agency issued a Notice and Order to Abate to the Authority. The Authority is working with the property donor to pay for the cost to remediate the site. As of June 30, 2016, and through the date of the report, there was insufficient information to develop an estimate of potential remediation costs attributable to the Authority.

13. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member of the Special District Risk Management Authority (SDRMA), a public entity risk pool formed under California Government Code Section 6500 et seq. The Authority's participation in the general liability program, public officials and employee errors and omissions, auto liability, employee benefits liability, and employment practice liability program of SDRMA provides coverage up to \$10,000,000 per occurrence.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Notes to Basic Financial Statements

13. Risk Management (Continued)

Contracted staff at the Authority are employees of the County of Riverside and are covered by the County's workers' compensation program. The County's workers' compensation program is a self-insured program, providing statutory limits of coverage as required by the State of California.

During the year ending June 30, 2016, the Authority had no settlements exceeding insurance coverage. For the past three years, settlements or judgment amounts have not exceeded insurance provided for the Authority.

14. Subsequent Events

Subsequent to June 30, 2016, the Authority acquired five new properties totaling approximately 268 acres with a combined value of \$2,161,312. Two properties were partially funded with State funds of \$971,500. The remaining properties were acquired with mitigation fees previously collected.

On November 7, 2016, the Authority's Board of Directors took action to amend the purchase and sale agreement with a corporation previously disclosed in Note 8 and Note 11. Under the new terms, the Authority agreed to pay the corporation \$12,073,598 by December 15, 2016. This includes \$8,800,000 in land acquisitions previously committed to be acquired during fiscal years 2017 through 2019, \$1,324,889 in long-term phased acquisition fee (note 8) plus \$1,948,709 in future phase acquisition fees (note 11) which were previously due and payable in January 2020.

REQUIRED SUPPLEMENTARY INFORMATION

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

**Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual - General Fund**

For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Infrastructure mitigation	\$ 474,570	\$ 494,570	\$ 567,476	\$ 72,906
Participating special entities	100,000	100,000	10,137	(89,863)
Landfill tipping fees	2,300,000	2,300,000	3,109,370	809,370
Federal and state contributions	50,000	64,000	54,764	(9,236)
Interest	55,220	55,220	110,986	55,766
Joint project review	60,000	90,000	99,543	9,543
Miscellaneous revenue	109,250	109,250	92,463	(16,787)
Total revenues	<u>3,149,040</u>	<u>3,213,040</u>	<u>4,044,739</u>	<u>831,699</u>
EXPENDITURES				
General operations				
Current:				
Contractual labor	156,450	164,450	157,665	6,785
Services and supplies	292,390	334,390	288,402	45,988
Subtotal general operations	<u>448,840</u>	<u>498,840</u>	<u>446,067</u>	<u>52,773</u>
Management and monitoring				
Current:				
Contractual labor	375,885	375,885	345,422	30,463
Services and supplies	2,288,815	2,302,815	2,060,029	242,786
Taxes and assessments	35,500	35,500	35,217	283
Subtotal management and monitoring	<u>2,700,200</u>	<u>2,714,200</u>	<u>2,440,668</u>	<u>273,532</u>
Total expenditures	<u>3,149,040</u>	<u>3,213,040</u>	<u>2,886,735</u>	<u>326,305</u>
Net change in fund balance	-	-	1,158,004	1,158,004
Fund balance beginning of the year	17,372,102	17,372,102	17,372,102	-
Fund balance end of year	<u>\$ 17,372,102</u>	<u>\$ 17,372,102</u>	<u>\$ 18,530,106</u>	<u>\$ 1,158,004</u>

See accompanying notes to the required supplementary information.

WESTERN RIVERSIDE COUNTY REGIONAL CONSERVATION AUTHORITY

Note to Required Supplementary Information

June 30, 2016

Budget and Budgetary Process

The Authority's Board of Directors approves each year's budget submitted by the Executive Director prior to the beginning of the fiscal year. The appropriations budget is prepared for each budget unit: general operations, management and monitoring, and land acquisition. The General Fund consists of the general operations and management and monitoring units, whereas the Capital Projects Fund consists of the land acquisition unit. The level on which expenditures may not legally exceed appropriations is the budget unit level. Budgets for the various budget units are adopted on a basis consistent with GAAP.

The Authority's Executive Director is authorized to make transfers and revisions of appropriations within a budget unit provided, however, that the total appropriations for each budget unit do not increase or decrease the amount approved in the budget resolution.

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