



SANTA ANA WATERSHED ASSOCIATION
FINANCIAL REPORT
DECEMBER 31, 2019

SANTA ANA WATERSHED ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Santa Ana Watershed Association
Riverside, California

We have audited the accompanying basic financial statements of Santa Ana Watershed Association ("SAWA") as of and for the year ended December 31, 2019 and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SAWA'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 SAWA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Ana Watershed Association as of December 31, 2019, and the changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Uncertain Net Position Restrictions

As discussed in Note 12 to the financial statements, SAWA is currently reviewing costs allocated to specific projects and contemplating a retroactive change to its cost allocations which would change its expendable restricted net position. These issues have not been resolved and could potentially have significant effects on SAWA's unrestricted net position. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Santa Ana Watershed Association's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 to 8 be presented to supplement the basic financial statements. Such information, although not 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 audits 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.



March 25, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

SANTA ANA WATERSHED ASSOCIATION MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Santa Ana Watershed Association ("SAWA"), we offer readers of SAWA's financial statements this narrative overview and analysis of SAWA's financial activities during the fiscal year ended December 31, 2019. Please read it in conjunction with SAWA's financial statements and accompanying notes to those financial statements.

Financial Highlights

- Total net position decreased by \$171,710 or 3.60 percent.
- Capital assets increased by \$109,923 or 38.2 percent.
- Current assets increased by \$359,909 or 37.4 percent.
- Total revenues were \$3,449,427 and total expenses were \$3,621,137.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of SAWA's financial statements. SAWA operates as a nonprofit public benefit corporation. SAWA's Board of Directors is composed of, or appointed by, selected officials of local government agencies. Accordingly, SAWA is subject to governmental accounting principles and is accounted for as an enterprise fund, using the full accrual basis of accounting. As an enterprise fund, SAWA's financial statements are comprised of two components: financial statements and notes to the financial statements.

In accordance with GASB Statement No. 34, SAWA's financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows.

The statement of net position presents information on all of SAWA's assets and liabilities, with the differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SAWA is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how SAWA's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in future fiscal periods.

The statement of cash flows conveys to financial statement users how SAWA managed cash resources during the year. This statement converts the change in net position presented on the statement of revenues, expenses, and changes in net position into actual cash provided by and used for operations. The statement of cash flows also details how SAWA obtains cash through financing and investing activities, and how cash is spent for these purposes.

SANTA ANA WATERSHED ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Summary Financial Information and Analysis

Table 1

Condensed Statements of Net Position

	2019	2018	Change
Current assets	\$ 1,323,376	\$ 963,467	\$ 359,909
Noncurrent assets			
Restricted assets	3,698,849	3,884,487	(185,638)
Deposits	19,463	9,532	9,931
Capital assets	<u>397,656</u>	<u>287,733</u>	<u>109,923</u>
Total assets	<u>5,439,344</u>	<u>5,145,219</u>	<u>294,125</u>
Current liabilities	768,293	263,045	505,248
Noncurrent liabilities	<u>79,068</u>	<u>118,481</u>	<u>(39,413)</u>
Total liabilities	847,361	381,526	465,835
Net position			
Invested in capital assets	320,028	189,390	130,638
Nonexpendable restricted	38,981	38,981	-
Expendable restricted	3,659,868	3,845,506	(185,638)
Unrestricted	<u>573,106</u>	<u>689,816</u>	<u>(116,710)</u>
Total net position	<u>\$ 4,591,983</u>	<u>\$ 4,763,693</u>	<u>\$ (171,710)</u>

Net position decreased by \$171,710, as seen in Table 1. The increase in current assets for the most part relates to an increase in due from governments. The amounts due are for current projects that were invoiced at year end but payment was not received until the next year. The decrease in restricted assets is due to the outflow of cash exceeding the amounts of cash received in the current year, as the cash expended in the current year was for ongoing projects. Revenues related to these ongoing projects were recognized in prior years when the cash was received. The increase in capital assets relates to the acquisition of field equipment, a truck and office furniture. The increase in current liabilities relates to an increase in deferred revenues. These are amounts received for projects that will be completed in future periods. The remaining fluctuation in total liabilities is due to an increase in accounts payable mostly for one large project, normal variances in year-end accrued liabilities and related parties payable and a decrease in the compensated absences accrual.

While the Statement of Net Position shows changes in financial position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Table 2, the decrease in net position of \$171,710 in the current year is the result of excess expenses over revenues.

SANTA ANA WATERSHED ASSOCIATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 2

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	December 31,		
	2019	2018	Change
Operating revenues	\$ 2,608,710	\$ 1,501,222	\$ 1,107,488
Operating expenses	<u>(3,613,452)</u>	<u>(2,851,634)</u>	<u>(761,818)</u>
Net operating loss	<u>(1,004,742)</u>	<u>(1,350,412)</u>	<u>345,670</u>
Nonoperating revenues	5,550	33,181	(27,631)
Investment income/(loss)	835,167	(198,964)	1,034,131
Nonoperating expenses	<u>(7,685)</u>	<u>(6,571)</u>	<u>(1,114)</u>
Net nonoperating revenues (expenses)	<u>833,032</u>	<u>(172,354)</u>	<u>1,005,386</u>
Change in net position	(171,710)	(1,522,766)	1,351,056
Net position, beginning of year	<u>4,763,693</u>	<u>6,286,459</u>	<u>(1,522,766)</u>
Net position, end of year	<u>\$ 4,591,983</u>	<u>\$ 4,763,693</u>	<u>\$ (171,710)</u>

SAWA's operating revenues less operating expenses net to a loss of \$171,710. A significant portion of this operating loss is a budgeted intended loss based on mitigation fees from developers and biological monitoring revenue recognized in prior periods while corresponding costs related to these projects are incurred in the current year and in subsequent years based on the agreement period.

The net nonoperating revenues are attributed to dividends earnings of \$183,126, the unrealized gain on the investment portfolio of \$526,155 and the realized gain on the sale of investments of \$125,886.

SANTA ANA WATERSHED ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

As can be seen in Table 3, as of December 31, 2019, SAWA has \$397,656 invested in capital assets (net of accumulated depreciation).

Table 3

Capital Assets

		December 31,	
	2019	2018	Change
Field equipment	\$ 195,418	\$ 75,097	\$ 120,321
Vehicles	255,191	222,337	32,854
Office equipment	73,888	58,817	15,071
Leasehold improvements	2,585	2,585	-
Land improvements	2,785	2,785	-
	529,867	361,621	168,246
Accumulated depreciation	(225,948)	(167,625)	(58,323)
Conservation easement	93,737	93,737	-
Net capital assets	<u>\$ 397,656</u>	<u>\$ 287,733</u>	<u>\$ 109,923</u>

The increase of \$109,923 can be summarized as follows:

- Current year purchases amounted to \$168,246
- Current year depreciation expense amounted to \$58,323

SANTA ANA WATERSHED ASSOCIATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term Debt

As can be seen in Table 4, as of December 31, 2019, SAWA's Long Term Debt totals \$79,068.

Table 4

Long Term Debt

		December 31,	
	2019	2018	Change
WRRCA Note Payable	\$ 56,278	\$ 77,628	\$ (21,350)
Compensated Absences	<u>22,790</u>	<u>40,853</u>	<u>(18,063)</u>
Long Term Debt	<u>\$ 79,068</u>	<u>\$ 118,481</u>	<u>\$ (39,413)</u>

The long-term portion of compensated absences decreased by \$18,063 from prior year. This decrease is related to payouts of accrued vacation time for employees that left or retired during 2019 and normal usage of accumulated accrued time by employees. During 2019, SAWA's long-term debt decreased related to the payments made on the note payable to Western Riverside Regional Conservation Authority ("WRRCA").

SANTA ANA WATERSHED ASSOCIATION MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

SAWA entered into a \$340,000 agreement with U.S. Fish and Wildlife Service (USFWS) to provide Vireo Monitoring and Cowbird Trapping in the Santa Ana Watershed through December 2019. USFWS has subsequently renewed the contract for an additional five years to 2024.

The Riverside County Flood Control and Water Conservation District approved a five year On-Call contract for invasive plant removal and maintenance and biological monitoring not to exceed \$4,000,000 in the Santa Ana River mainstream and tributaries. Work under this contract began in September 2018 and will extend through 2021.

SAWA completed a Memorandum of Understanding with Temecula Elsinore Anza Murrieta Resource Conservation District ("TEAM RCD") to undertake vegetation management in Riverside County Flood Control channels in the Santa Margarita River Watershed for \$250,000. Work commenced in October 2018 and is expected to extend into 2023.

In July 2019, SAWA entered into a multi-year agreement with the Orange County Water District for \$3,700,000 to remove invasive Arundo in the mainstream of the Santa Ana River Watershed. Work commenced in October 2019 and will continue through 2021.

SAWA also has entered into a 5-year agreement which provides for payment of \$1,217,006 per fiscal year beginning July 1st, 2018 for biological monitoring services with the Western Riverside Regional Conservation Authority to support their Multiple Species Habitat Conservation Plan. The agreement runs through June 2023 and provides for negotiated annual increases in billing rates.

Contacting SAWA's Financial Management

This financial report is designed to provide SAWA's contributors, member agencies, the public, and creditors with a general overview of SAWA's finances and to show SAWA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Brian J. Brady, P.E., Executive Director, Santa Ana Watershed Association, 1835 Chicago Avenue, Suite C, Riverside, California, 92507.

FINANCIAL STATEMENTS

SANTA ANA WATERSHED ASSOCIATION

STATEMENTS OF NET POSITION

December 31, 2019

(with Comparative Totals for December 31, 2018)

ASSETS		
	2019	2018
Current assets		
Cash	\$ 8,276	\$ 20,944
Investments	621,264	651,859
Accounts receivable	14,777	1,986
Due from governments	617,194	235,494
Dividends receivable	796	1,090
Herbicide inventory	15,786	12,755
Prepaid expenses	45,283	39,339
Total current assets	1,323,376	963,467
Noncurrent assets		
Cash - restricted	\$ 135,913	\$ 80,487
Investments - restricted	3,562,936	3,804,000
Deposits	19,463	9,532
Capital assets not being depreciated	93,737	93,737
Capital assets, net of accumulated depreciation	303,919	193,996
Total noncurrent assets	4,115,968	4,181,752
Total assets	5,439,344	5,145,219
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	269,943	39,431
Accrued compensation and benefits	106,200	88,109
Compensated absences payable	42,688	21,790
Unearned revenue	313,322	62,892
Note payable - current portion	21,350	20,715
Related parties payable	14,790	30,108
Total current liabilities	768,293	263,045
Noncurrent liabilities		
Compensated absences payable	22,790	40,853
Note payable	56,278	77,628
Total noncurrent liabilities	79,068	118,481
Total liabilities	847,361	381,526
NET POSITION		
Net Investment in capital assets	320,028	189,390
Restricted		
Conservation easement endowment - nonexpendable	38,981	38,981
Riparian and wetland restoration	689,039	714,857
Mitigation	2,715,000	2,715,000
Other	255,829	415,649
Unrestricted	573,106	689,816
Total net position	\$ 4,591,983	\$ 4,763,693

See notes to financial statements.

SANTA ANA WATERSHED ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2019
(with Comparative Totals for Year Ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Operating revenues		
Wildlife and habitat management services	\$ 1,769,458	\$ 1,081,631
Habitat restoration services	<u>839,252</u>	<u>419,591</u>
Total operating revenues	<u>2,608,710</u>	<u>1,501,222</u>
Operating expenses		
Personnel services	2,392,258	1,790,635
Administration and overhead	576,073	538,372
Project expenses	491,715	391,402
Travel, mileage and conferences	59,987	60,271
Depreciation	58,323	46,076
Field testing and supplies	35,096	24,513
Educational supplies	<u>-</u>	<u>365</u>
Total operating expenses	<u>3,613,452</u>	<u>2,851,634</u>
Operating loss	<u>(1,004,742)</u>	<u>(1,350,412)</u>
Nonoperating revenues (expenses)		
Investment income (loss)	835,167	(198,964)
Other income	5,550	33,181
Interest expense	(2,685)	(1,571)
Contributions to others	<u>(5,000)</u>	<u>(5,000)</u>
Nonoperating revenues (expenses)	<u>833,032</u>	<u>(172,354)</u>
Changes in net position	(171,710)	(1,522,766)
Net position - beginning of year	<u>4,763,693</u>	<u>6,286,459</u>
Net position - end of year	<u>\$ 4,591,983</u>	<u>\$ 4,763,693</u>

See notes to financial statements.

SANTA ANA WATERSHED ASSOCIATION
STATEMENTS OF CASH FLOWS
Year Ended December 31, 2019
(with Comparative Totals for Year Ended December 31, 2018)

	2019	2018
Cash flows from operating activities		
Cash received from customers	\$ 2,470,199	\$ 1,584,393
Cash payments to employees	(2,372,499)	(1,780,346)
Cash payments to suppliers for goods and services	(970,416)	(1,047,899)
Net cash used in operating activities	(872,716)	(1,243,852)
Cash flows from capital and related financing activities		
Cash paid to acquire capital assets	(168,246)	(16,544)
Payments on notes payable	(20,715)	(10,129)
Interest paid	(2,685)	(1,571)
Net cash used in capital and related financing activities	(191,646)	(28,244)
Cash flows from investing activities		
Sale of investments	1,055,000	1,604,695
Purchase of investments	(131,300)	(650,934)
Dividends received on investments	183,420	311,863
Net cash provided by investing activities	1,107,120	1,265,624
Change in cash	42,758	(6,472)
Cash, beginning of year	101,431	107,903
Cash, end of year	<u>\$ 144,189</u>	<u>\$ 101,431</u>
Reconciliation of cash to the statement of net position		
Cash - unrestricted	8,276	20,944
Cash - restricted	135,913	80,487
Total cash	<u>\$ 144,189</u>	<u>\$ 101,431</u>

See notes to financial statements.

SANTA ANA WATERSHED ASSOCIATION
STATEMENTS OF CASH FLOWS
Year Ended December 31, 2019
(with Comparative Totals for Year Ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,004,742)	\$ (1,350,412)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	58,323	46,076
Contributions to others	(5,000)	(5,000)
Other income	5,550	33,181
Changes in operating assets and liabilities:		
Accounts receivable	(12,791)	27,675
Due from governments	(381,700)	(36,338)
Herbicide inventory	(3,031)	(2,591)
Prepaid expenses	(5,944)	(13,659)
Deposits	(9,931)	-
Accounts payable and accrued liabilities	230,512	(2,761)
Accrued compensation and benefits	18,091	15,281
Compensated absences payable	2,835	(3,745)
Related party payable	(15,318)	(10,212)
Unearned revenue	<u>250,430</u>	<u>58,653</u>
Total adjustments	<u>132,026</u>	<u>106,560</u>
Net cash used in operating activities	<u>\$ (872,716)</u>	<u>\$ (1,243,852)</u>
Noncash capital, financing, and investing activities		
Net unrealized gain (loss)		
Net unrealized gain (loss)	\$ 526,154	\$ (491,705)
Noncash capital and related financing activities:		
Assets acquired by note payable	\$ -	\$ 108,472

See notes to financial statements.

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY

The Santa Ana Watershed Association (“SAWA”) was founded in 1996 as an unincorporated association known as the Santa Ana Watershed Association of Resource Conservation Districts. SAWA incorporated as a nonprofit public benefit corporation in 2003. SAWA’s purpose is to promote a healthy Santa Ana River Watershed for wildlife and people. SAWA develops, coordinates and implements natural resource programs which support a sustainable ecosystem and social benefits from the San Bernardino Mountains to the Pacific Ocean. SAWA’s Board is comprised of appointed representatives from the following governments: Orange County Water District, Inland Empire Resource Conservation District, San Jacinto Basin Resource Conservation District, Riverside-Corona Resource Conservation District, and Temecula-Elsinore-Anza-Murrieta Resource Conservation District.

Although legally established as a nonprofit public benefit corporation, SAWA’s Board is composed of or appointed by selected officials of government agencies. Accordingly, SAWA is subject to governmental accounting principles (as applicable to enterprise funds).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The accounts of SAWA are organized and operated on the basis of a fund. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and uses them to aid management in demonstrating compliance with finance-related legal and contractual provisions. SAWA’s financial statements include an enterprise fund, which is a proprietary fund type. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to a private business or where the board of directors has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management.

Basis of Accounting

Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. SAWA follows the reporting requirements for enterprise funds, in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, establishing accounting and financial reporting standards for the financial statements of state and local governments. The standard incorporates into the GASB’s authoritative literature the applicable guidance previously only found in certain Financial Accounting Standards Board (“FASB”) and American Institute of Certified Public Accountants (“AICPA”) pronouncements issued before November 30, 1989.

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

An enterprise fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with SAWA's principal ongoing operations. The principal operating revenues of SAWA are from mitigation fees, habitat restoration projects, and biological monitoring services including wildlife habitat management and brown headed cowbird trapping associated with the Santa Ana River and adjacent watersheds. The principal operating expenses of SAWA are for invasive weed removal projects, specifically the removal of non-native species, including *Arundo Donax*, from the Santa Ana River and adjacent watersheds.

Revenues received from investment earnings and contributions are considered nonoperating revenue.

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

Comparative Data

Prior year data has been included where practical for comparison purposes only. The prior year data does not represent a complete presentation in accordance with accounting principles generally accepted in the United States of America. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

Cash and Cash Equivalents

For purposes of the statement of cash flows, SAWA considers cash and cash equivalents to be cash on hand, demand deposits, and money market funds from which funds can be effectively deposited or withdrawn at any time without prior notice or penalty.

Investments

Investments are reported in the accompanying statement of net position at fair value. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity or sale of investments.

Receivables

SAWA considers receivables to be fully collectible at period end. Accordingly, accounts receivable are not shown net of an allowance for uncollectible accounts based on management's estimate. Actual collected amounts could differ.

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists of herbicides carried at cost, which approximates market, using first-in, first-out (“FIFO”) method.

Capital Assets

Capital assets are recorded at cost. Donated capital assets are recorded at fair value on the date of donation plus any ancillary costs. SAWA’s policy is to capitalize all property having a value of \$2,500 or more and a life expectancy of one year or more. Depreciation has been provided for using the straight-line method over estimated useful lives of the related assets. Useful lives for depreciation purposes range from 2 to 10 years depending on the asset being capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

Compensated Absences

Employees gain a vested right to accumulated unpaid vacation based on years of service but cannot accumulate more than 200 hours of accrued vacation. Employee vacation benefits are recognized as a liability of SAWA.

Unearned Revenue

Funds received in advance of services provided, other than developer in-lieu fees, are recognized as unearned revenue. As of December 31, 2019, SAWA received \$313,322 for wildlife and habitat management services to be provided in the following year.

Income Taxes

SAWA is a charitable not-for-profit organization and is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and Code Section 23701(d) of the California Revenue and Taxation Code.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted when there are limitations imposed on their use either through the external restrictions imposed by grantors or laws, or regulations of other governments. Nonexpendable restricted net position is an endowment fund required to be held in perpetuity. Expendable restricted funds are restricted by various entities for program use. Unrestricted net position represents the net position that is not restricted for any project or other purpose.

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards

In June 2017, the GASB issued Statement No. 87, *Leases*. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. The requirements of this statement are effective for financial statements for reporting periods beginning after July 15, 2021. SAWA expects that the adoption of this standard will have a material impact on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement's objective is to improve the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2019. SAWA expects that the adoption of this standard will not have a material impact on its financial statements.

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of December 31, 2019 are classified in the accompanying financial statement as follows:

Cash	
Cash - unrestricted	\$ 8,276
Cash - restricted	<u>135,913</u>
Cash	<u>144,189</u>
Investments:	
Investments - unrestricted	621,264
Investments - restricted	<u>3,562,936</u>
Investments	<u>4,184,200</u>
Total cash and investments	<u>\$ 4,328,389</u>

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – CASH AND INVESTMENTS (Continued)

Cash and investments as of December 31, 2019 consist of the following:

Deposits with financial institutions	\$ 144,189
Mutual funds invested into debt securities	1,877,254
Mutual funds invested into equity securities	<u>2,306,946</u>
Total cash and investments	<u>\$ 4,328,389</u>

At December 31, 2019 cash and investments were restricted for the following purposes:

Riparian/wetland habitat along San Timoteo Creek	\$ 689,039
In-lieu fee mitigation program	2,715,000
Orange County Water District Projects	255,829
Mockingbird II Conservation Easement Endowment Fund	<u>38,981</u>
Total restricted cash and investments	<u>\$ 3,698,849</u>

In order to obtain economies of scale, SAWA manages its investments on a commingled basis. SAWA maintains the necessary sub-accounting of all commingled funds, dividing the portfolio into short-term investments for operating needs and long-term investments as determined by the Board, with consultation from staff. The portfolio of SAWA is diversified using the tenets of modern portfolio theory. The basic approach to optimize risk return utilizes a globally diverse portfolio made up of low correlating assets along with the discipline of regular rebalancing.

Investments Authorized by SAWA's Investment Policy

The portfolio is managed in a balanced manner to the board approved Income and Growth asset allocation (45 percent equities, 45 percent fixed income, and 10 percent cash). Deviation of these allocations can be in a range of within 10 percent +/- depending on the operating needs of SAWA. Investments in any one security may not exceed 10 percent of the portfolio, unless in an exchange traded fund ("ETF") or mutual fund. No investments may be made on margin. In addition, no short sales, noninvestment grade securities, futures contracts or leverage are permitted unless held in an ETF or actively managed fund. The investments in these strategies are for risk management and not for speculation.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that SAWA manages its exposure to interest rate risks is by investing in mutual funds which can be accessed at any time to provide the cash flow and liquidity needed for operations.

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. SAWA's investment policy does not require minimum ratings for the investments held as of December 31, 2019.

Concentration of Credit Risk

SAWA's investment policy states that an investment in any one security may not exceed 10 percent of the entire portfolio. There were no investments in any one issuer (other than mutual funds) that represent 10 percent or more of SAWA's total portfolio. United States of America generally accepted accounting principles also require disclosure in the notes to the financial statement of any investment in an issuer (other than U.S. Treasury securities and mutual funds) that represents 5 percent or more of SAWA's total investments. As of December 31, 2019, there were no such concentrations.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an entity will not be able to recover its deposits. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, an entity will not be able to recover the value of its investment. SAWA's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

SAWA maintains its cash and investments at one financial institution. The balance at this financial institution is insured by the Securities Investor Protection Corporation ("SIPC") up to \$500,000 per client for securities, inclusive of up to \$250,000 per client for cash. This financial institution has obtained private insurance coverage from a Lloyd's of London syndicate to provide additional protection for very large client accounts. For clients who have received the full SIPC limits, further protection, including up to \$1.9 million for cash, is provided by this policy, subject to an aggregate loss limit of \$1 billion for all customer claims. At December 31, 2019, SAWA's investments held at the financial institution exceeded the SIPC limit which would be protected under the Lloyd's of London syndicate policy subject to its aggregate limit. SAWA had no uninsured cash balances at December 31, 2019.

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investments

Fair Value of Investments

GASB Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”), provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets as of the measurement date in active markets that SAWA has the ability to access. Fair values are determined using fund manager estimates.

- Level 2 Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

- Level 3 Inputs to the valuation methodology are unobservable and include situations where there is little, if any, market activity for the investment.

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

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: Valued at the closing price reported in the active market on which the individual funds are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while SAWA believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investments

Fair Value of Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, SAWA's investment assets at fair value as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds invested into debt securities	\$ 1,877,254	\$ -	\$ -	\$ 1,877,254
Mutual funds invested into equity securities	<u>2,306,946</u>	<u>-</u>	<u>-</u>	<u>2,306,946</u>
	<u>\$ 4,184,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,184,200</u>

NOTE 4 – RISK MANAGEMENT

SAWA purchases various insurances through Nonprofit's Insurance Alliance of California ("NIAC"). The following table presents the coverages along with the applicable limits:

<u>Type of Insurance</u>	<u>Each Occurrence Limit</u>	<u>Aggregate Limit</u>
Commercial liability	\$ 1,000,000	\$ 3,000,000
Automobile liability	1,000,000	N/A
Umbrella liability	1,000,000	1,000,000
Professional liability	1,000,000	3,000,000

SAWA purchases commercial workers' compensation insurance from the State Compensation Insurance Fund ("State Fund"). Under this policy, State Fund provides workers' compensation coverage of up to \$1,000,000 per claim.

During the year ended December 31, 2019, SAWA had no settlements exceeding insurance coverage for these categories of risk. For the past three years, settlement or judgment amounts have not exceeded insurance coverage.

SANTA ANA WATERSHED ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – CAPITAL ASSETS

The following is a summary of changes in capital assets for SAWA at December 31, 2019:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets being depreciated:				
Field equipment	\$ 75,097	\$ 120,321	\$ -	\$ 195,418
Vehicles	222,337	32,854	-	255,191
Office equipment	58,817	15,071	-	73,888
Leasehold improvements	2,585	-	-	2,585
Land Improvements	<u>2,785</u>	<u>-</u>	<u>-</u>	<u>2,785</u>
	<u>361,621</u>	<u>168,246</u>	<u>-</u>	<u>529,867</u>
Less accumulated depreciation for:				
Field equipment	(61,275)	(10,374)	-	(71,649)
Vehicles	(75,378)	(38,805)	-	(114,183)
Office equipment	(29,465)	(8,352)	-	(37,817)
Leasehold improvements	(1,161)	(516)	-	(1,677)
Land improvements	<u>(346)</u>	<u>(276)</u>	<u>-</u>	<u>(622)</u>
	<u>(167,625)</u>	<u>(58,323)</u>	<u>-</u>	<u>(225,948)</u>
Net assets being depreciated	<u>193,996</u>	<u>109,923</u>	<u>-</u>	<u>303,919</u>
Capital assets not depreciated:				
Conservation easement	<u>93,737</u>	<u>-</u>	<u>-</u>	<u>93,737</u>
Net assets not being depreciated	<u>93,737</u>	<u>-</u>	<u>-</u>	<u>93,737</u>
Total capital assets, net	<u>\$ 287,733</u>	<u>\$ 109,923</u>	<u>\$ -</u>	<u>\$ 397,656</u>

Depreciation expense was \$58,323 for the year ended December 31, 2019.

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 – DEFINED CONTRIBUTION PENSION PLAN

SAWA provides pension benefits for all of its permanent employees through a 403(b) defined contribution plan administered by Lincoln Financial Services. The plan was adopted in July 2004 by the Board of Directors. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are required to participate after achieving permanent status. SAWA contributes 6 percent of each eligible employee's compensation up to a maximum annual compensation allowed by law. The plan is a standardized plan which can be amended due to changes in law or by the Board of Directors. Employees voluntarily contribute to the plan. Employee contributions are limited to the maximum allowed by law. SAWA's contributions for each employee and the related allocated investment earnings vest in accordance to the plan document. Employees are fully vested after three years of participation. The employees are vested immediately in their contributions and any related allocated investment earnings. During the fiscal year ended December 31, 2019, SAWA contributed \$101,206 to the plan while SAWA employees contributed \$65,013, to the.

NOTE 7 – LONG TERM LIABILITIES

Activity in long-term liabilities for the year ended December 31:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within one Year</u>
Note payable	\$ 98,343	\$ -	\$ 20,715	\$ 77,628	\$ 21,350
Compensated absences	<u>62,643</u>	<u>\$ 2,835</u>	<u>\$ -</u>	<u>\$ 65,478</u>	<u>\$ 42,688</u>
	<u>\$ 160,986</u>	<u>\$ 2,835</u>	<u>\$ 20,715</u>	<u>\$ 143,106</u>	<u>\$ 64,038</u>

In July 2018 SAWA entered into an agreement to purchase equipment for \$117,000 with zero interest rate, due June 30, 2023, payable in monthly installments of \$1,950. An imputed interest rate of 3.02% has been applied resulting in debt issued of \$108,472.

The following are the maturities of the note payable:

Fiscal Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 21,350	\$ 2,050	\$ 23,400
2021	22,003	1,397	23,400
2022	22,677	723	23,400
2023	<u>11,598</u>	<u>102</u>	<u>11,700</u>
	<u>\$ 77,628</u>	<u>\$ 4,272</u>	<u>\$ 81,900</u>

SANTA ANA WATERSHED ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – ADMINISTRATIVE OFFICE LEASE

In September 2016, SAWA entered into a ten-year lease for office space. This agreement is noncancellable for the first five years and cancellable with twelve months written notice thereafter. Monthly rent under this agreement is \$5,652 with a 2.5 percent annual increase for the first five years and a 3.5 percent annual increase thereafter. Payment of SAWA's share of operating expenses is also required. For the year ended December 31, 2019, SAWA incurred \$71,709 in expenses under the lease agreement. The following is a schedule of minimum payments over the next two years excluding operating expenses:

<u>Year ended December 31</u>	<u>Amount</u>
2020	\$ 73,149
2021	<u>56,153</u>
Total	<u>\$ 129,302</u>

In December 2019, SAWA entered into a two-year noncancellable lease for office space with lease term beginning January 1, 2020. Monthly rent under this agreement is \$6,087 with a 2.5 percent increase for the second year. Payment of SAWA's share of operating expenses is also required. For the year ended December 31, 2019, SAWA incurred no costs related to this lease agreement.

The following is a schedule of minimum payments over the next two years excluding operating expenses:

<u>Year ended December 31</u>	<u>Amount</u>
2020	\$ 73,044
2021	<u>74,868</u>
Total	<u>\$ 147,912</u>

SANTA ANA WATERSHED ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – WAREHOUSE LEASE

In November 2016, SAWA entered into a five-year noncancellable lease for warehouse space. Monthly rent, common area maintenance and parking fees under this agreement total \$1,314 with a 3.0 percent annual increase of rent and common area maintenance. For the year ended December 31, 2019, SAWA incurred \$17,383 in costs under the lease agreement.

The following is a schedule of minimum payments over the next two years excluding operating expenses:

<u>Year ended December 31</u>	<u>Amount</u>
2020	\$ 17,306
2021	<u>14,780</u>
Total	<u>\$ 32,086</u>

In December 2019, SAWA entered into a two-year noncancellable lease for warehouse space. Monthly rent, common area maintenance and parking fees under this agreement total \$1,314 with a 3.0 percent annual increase of rent and common area maintenance. For the year ended December 31, 2019, SAWA incurred \$1,341 in costs under the lease agreement.

The following is a schedule of minimum payments over the next two years excluding operating expenses:

<u>Year ended December 31</u>	<u>Amount</u>
2020	\$ 16,092
2021	<u>14,751</u>
Total	<u>\$ 30,843</u>

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – RELATED PARTY TRANSACTIONS

As described in Note 1, SAWA’s board is comprised of representatives from Orange County Water District (“OCWD”), Inland Empire Resource Conservation District (“IERCD”), San Jacinto Basin Resource Conservation District (“SJBRCD”), Riverside-Corona Resource Conservation District (“RCRCD”), and Temecula-Elsinore-Anza-Murrieta Resource Conservation District (“TEAM RCD”). The following related party assets (liabilities) are included in the statement of net position for the year ended December 31, 2019:

	<u>OCWD</u>	<u>IERCD</u>	<u>SJBRCD</u>	<u>TEAM RCD</u>	<u>RCRCD</u>	<u>Total</u>
Due from governments	\$ 387,868	\$ 4,894	\$ 738	\$ 44,902	\$ 14,668	\$ 453,070
Related parties payable	(8,344)	(4,133)	(520)	(1,366)	(427)	(14,790)
Unearned revenue	(151,527)	-	-	-	-	(151,527)

The following related party revenues (expenses) are included in the statement of revenues, expenses, and changes in net position for the year ended December 31, 2019:

	<u>OCWD</u>	<u>IERCD</u>	<u>SJBRCD</u>	<u>TEAM RCD</u>	<u>RCRCD</u>	<u>Total</u>
Habitat restoration fees	\$ 358,742	\$ 68,555	\$ 1,788	\$ 57,509	\$ 14,668	\$ 501,262
Biological monitoring revenue	104,849	45,227	-	-	-	150,076
Project expense	(125,416)	(43,527)	-	-	-	(168,943)
Rental expense	-	-	-	-	(86,954)	(86,954)
Other expenses	-	-	(8,472)	(7,435)	(7,278)	(23,185)

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – RESTRICTED NET POSITION

Riparian/Wetland Habitat along San Timoteo Creek

In October 2004, SAWA received \$1,620,000 from the United States Army Corps of Engineers to be used for riparian and wetland habitat restoration along San Timoteo Creek. These funds are restricted for program use. As of December 31, 2019, \$689,039 remaining from these funds are reflected on the statement of net position as part of restricted cash and investments and as a component of expendable restricted net position.

Orange County Water District Projects

SAWA holds funding received from OCWD, to be used for projects pre-approved by the OCWD Executive Director of Planning and Natural Resources and OCWD Natural Resources Director. As of December 31, 2019, \$255,829 remaining from these funds are reflected on the statement of net position as part of restricted cash and investments and as a component of expendable restricted net position.

In-lieu Fee Mitigation Program

SAWA holds \$2,715,000 in in-lieu fee mitigation monies received from the United States Army Corp of Engineers. At December 31, 2019, these funds had not been expended and are reflected on the statement of net position as part of restricted cash and investments and as a component of expendable restricted net position.

Mockingbird II Conservation Easement and Endowment Fund

The Mockingbird II Conservation Easement Endowment Fund was established in November 2009 when Mockingbird II Conservation Easement and the related endowment fund were transferred to SAWA from The Environmental Trust. The conservation easement is reflected as a capital asset at its estimated fair value plus ancillary costs, totaling \$93,737.

The endowment fund received a total of \$38,981 and is required to be held in perpetuity with only the investment earnings available for use in the maintenance of the conservation easement. This fund is reflected on the statement of net position in restricted cash and investments and nonexpendable restricted net position.

SANTA ANA WATERSHED ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 – ANTICIPATED CHANGES TO NET POSITION

In-lieu Fee Mitigation Requirements

SAWA has also identified that in-lieu fee mitigation requirements may have been satisfied to a greater extent than originally reported. This would result in a reduction in expendable restricted net position for these funds, with an offsetting increase in unrestricted net position, or other expendable restricted funds, or both. Research to determine the extent of the reclassification has not been completed, and changes to net position could not be estimated at this time.

Due to the unresolved nature of this issue, potential changes to unrestricted and expendable restricted balances were considered by management to be un-estimable as of March 25, 2021, the date these financial statements were available to be issued.

NOTE 13 – SUBSEQUENT EVENTS

In the preparation of these financial statements, SAWA considered subsequent events through March 25, 2021 which is the date these financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which SAWA operates. While it is unknown how long these conditions will last, SAWA was deemed to be an essential provider by the State of California and has seen little effect on its revenues and business as a whole. SAWA did put measures in place to be in compliance with state and local advisories related to Covid-19 to allow for continuing operations.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions. Material estimates, such as, the valuation of the investments, has shown to be adequate and has not been adversely affected.

On May 11, 2020, SAWA received loan proceeds in the amount of \$431,328 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first ten months.