

**INLAND EMPIRE RESOURCE CONSERVATION DISTRICT**  
**REPORT ON AUDIT**  
**JUNE 30, 2014**

# ***Inland Empire Resource Conservation District***

## **Table of Contents**

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	<u>Exhibit / Schedule</u>	<u>Page</u>
<b>Independent Auditor's Report</b>		1
<b>Management's Discussion and Analysis</b>		3
<b>Basic Financial Statements</b>		
<b>Government-Wide Financial Statements</b>		
Statement of Net Position	A	10
Statement of Activities	B	11
<b>Fund Financial Statements</b>		
Balance Sheet - Governmental Fund	C	12
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position	D	13
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	E	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	F	15
<b>Notes to Financial Statements</b>		16
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedule - General Fund	One	29
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		30



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## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Inland Empire Resource Conservation District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express 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, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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*PCPS The AICPA Alliance  
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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 the major fund of the District as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 29 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 a report dated September 26, 2014 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rogers Anderson Maloof & Scott, LLP". The signature is written in a cursive, flowing style.

San Bernardino, CA  
September 26, 2014

# ***Inland Empire Resource Conservation District***

## **Management's Discussion and Analysis**

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### **Introduction**

As management of the Inland Empire Resource Conservation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial activities during the fiscal year ended June 30, 2014. Please read it in conjunction with the District's basic financial statements and accompanying notes to those financial statements.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the current fiscal year by \$9,747,176. Of this amount, \$5,484,631 may be used to meet the District's ongoing obligations.
- The District's total net position increased by \$1,334,812.
- As of June 30, 2014, the District's General Fund reported fund balance of \$8,325,258 an increase of \$620,714 in comparison to the prior year. Of this total, \$1,265,999 is available for spending at the District's discretion (unassigned fund balance).
- For the current fiscal year the District's General Fund expenditures represented 78% of the unassigned fund balance.

### **Overview of this Annual Report**

This discussion and analysis is intended to serve as an introduction of the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

### **Government-Wide Financial Statements**

The government-wide financial statements include the *statement of net position* and the *statement of activities*. These statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. The *statement of net position* includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities), with the difference 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 the District is improving or deteriorating. The *statement of net position* also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The *statement of activities* presents information showing how the District's net position changed during the fiscal year. All of the current year's revenues and expenses, regardless of when cash is received or paid, are accounted for in the *statement of activities*. This statement measures the success of the District's activities over the past year and can be used to determine whether the District has successfully recovered all its costs. This statement also measures profitability and credit worthiness.

The government-wide financial statements can be found on pages 10-11 of this report.

# ***Inland Empire Resource Conservation District***

## **Management's Discussion and Analysis**

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### **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. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District uses *governmental funds* to report its activities. The District's governmental fund financial statements include the *balance sheet* and the *statement of revenues, expenditures and changes in fund balance*.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Since the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the District's balance sheet and statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These statements cover governmental type activities and are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The District maintains one governmental fund – the General Fund. The District adopts an annual appropriated budget for its General Fund, and a budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with the budget.

The fund financial statements and related reconciliations can be found on pages 12-15 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 16-28 of this report.

### **Government-Wide Financial Analysis**

One of the most important questions asked about the District's finances is, "Is the District, as a whole, better off or worse off as a result of this year's activities?" The *Statement of Net Position* and the *Statement of Activities* report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and the changes therein. One can think of the District's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

## ***Inland Empire Resource Conservation District***

### **Management's Discussion and Analysis**

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Approximately fifteen (15) percent of the District's net position reflects its investment in capital assets (e.g., land, equipment and furniture). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Table 1  
Statements of Net Position

	<b>6/30/14</b>	<b>6/30/13</b>	<b>Change</b>
Current and Other Assets	\$ 8,433,528	\$ 7,835,745	\$ 597,783
Capital Assets	1,441,630	718,493	723,137
Total Assets	<u>9,875,158</u>	<u>8,554,238</u>	<u>1,320,920</u>
Compensated Absences	19,712	10,673	9,039
Other Liabilities	<u>108,270</u>	<u>131,201</u>	<u>(22,931)</u>
Total Liabilities	<u>127,982</u>	<u>141,874</u>	<u>(13,892)</u>
Net Position			
Invested in Capital Assets	1,441,630	718,493	723,137
Restricted	2,820,915	2,791,402	29,513
Unrestricted	<u>5,484,631</u>	<u>4,902,469</u>	<u>582,162</u>
Net Position	<u>\$ 9,747,176</u>	<u>\$ 8,412,364</u>	<u>\$ 1,334,812</u>

A portion of the District's net position (44%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$5,484,631) may be used to meet the District's ongoing obligations to citizens and creditors.

Net position increased by \$1,334,812, as seen in Table 1 above. The increase in the value of net position is due primarily to the increase in contribution revenue and SAWA project revenue. The net increase in capital assets of \$723,137 resulted from the donation of land of \$512,000 and donated land easements of \$210,975. Furthermore, equipment of \$8,997 was purchased during the year.

While the Statement of Net position shows changes in financial position, the Statement of Activities provides answers as to the nature and source of these changes. As can be seen in Table 2, the increase in net position of \$1,334,812 in the current year is the result of excess revenues over expenses.

## ***Inland Empire Resource Conservation District***

### **Management's Discussion and Analysis**

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Table 2  
Statement of Activities and Changes in Net Position

	<b>6/30/14</b>	<b>6/30/13</b>	<b>Change</b>
Program Revenues:			
SAWA projects	\$ 112,983	\$ 56,829	\$ 56,154
Mitigation funds	284,649	546,586	(261,937)
Capital contributions	722,975	-	722,975
Reimbursable grant revenue	9,133	-	9,133
Total Program Revenues	<u>1,129,740</u>	<u>603,415</u>	<u>526,325</u>
General Revenues:			
Property taxes	1,101,179	1,451,263	(350,084)
Other	123,945	124,355	(410)
Total General Revenues	<u>1,225,124</u>	<u>1,575,618</u>	<u>(350,494)</u>
Total Revenues	<u>2,354,864</u>	<u>2,179,033</u>	<u>175,831</u>
Program Expenses:			
Salaries and benefits	433,598	360,756	72,842
Services and supplies	577,619	359,983	217,636
Depreciation	8,835	7,594	1,241
Total Program Expenses	<u>1,020,052</u>	<u>728,333</u>	<u>291,719</u>
Increase in Net Position	1,334,812	1,450,700	(115,888)
Net Position - Beginning	<u>8,412,364</u>	<u>6,961,664</u>	<u>1,450,700</u>
Net Position - Ending	<u>\$ 9,747,176</u>	<u>\$ 8,412,364</u>	<u>\$ 1,334,812</u>

The District's program revenues less program expenses nets to income of \$109,688. This year the District's general revenues amounted to \$1,225,124; a decline of \$350,494 compared to the prior year. This decrease in general revenues was mainly due to a reduction in total received property tax receipts. The overall increase in net position was \$1,334,812.

## ***Inland Empire Resource Conservation District***

### **Management's Discussion and Analysis**

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#### **Fund Financial Analysis**

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

As of the end of the current fiscal year, the District's governmental fund reported an ending fund balance of \$8,325,258, an increase of \$620,714 from the prior year. Of the \$8,325,258, \$2,820,915 is restricted for specific mitigation and easement related expenditures. In accordance with GASBS No. 54, the District has committed \$1,750,000 to construction of an environmental education center and \$1,500,000 to the purchase of land for a mitigation bank.

#### **Capital Assets**

As can be seen in Table 3, as of June 30, 2014, the District has \$1,441,630 invested in capital assets (net of accumulated depreciation).

Table 3  
Capital Assets

	<b>6/30/14</b>	<b>6/30/13</b>	<b>Change</b>
Land	\$ 624,000	\$ 112,000	\$ 512,000
Land Easements	788,975	578,000	210,975
Equipment	52,477	43,480	8,997
Furniture and Fixtures	7,982	7,982	-
Vehicles	51,858	51,858	-
	<u>1,525,292</u>	<u>793,320</u>	<u>731,972</u>
Accumulated Depreciation	<u>(83,662)</u>	<u>(74,827)</u>	<u>(8,835)</u>
Net Capital Assets - Ending	<u>\$ 1,441,630</u>	<u>\$ 718,493</u>	<u>\$ 723,137</u>

The increase of \$723,137 can be summarized as follows:

- Current year donations amounted to \$722,975
- Current year depreciation expense amounted to \$8,835
- Current year equipment purchases amount to \$8,997

Additional information on the District's capital assets can be found in the notes on page 25.

## ***Inland Empire Resource Conservation District***

### **Management's Discussion and Analysis**

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#### **Long-Term Debt**

Currently, the District has no long-term debt obligations, other than compensated absences payable, which increased by \$9,039 over the prior year.

#### **Budgetary Highlights**

The District's comparative analysis in Table 4 includes key elements of the budget.

Table 4  
Budget vs. Actual Fiscal Year 2014

	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>Revenues:</b>			
Property Taxes	\$ 650,901	\$ 1,101,179	\$ 450,278
SAWA Projects	100,000	112,983	12,983
Mitigation Funds	250,000	284,649	34,649
Investment Earnings	37,000	23,315	(13,685)
Reimbursable grant revenue	10,000	9,133	(867)
Other	391,213	100,630	(290,583)
	<u>1,439,114</u>	<u>1,631,889</u>	<u>192,775</u>
<b>Expenditures:</b>			
Salaries and Benefits	453,880	424,559	29,321
Services and Supplies	976,234	577,619	398,615
Capital Outlay: Equipment	9,000	8,997	3
	<u>1,439,114</u>	<u>1,011,175</u>	<u>427,939</u>
Excess (Deficiency)	<u>\$ -</u>	<u>\$ 620,714</u>	<u>\$ 620,714</u>

Actual revenues are \$192,775 higher than estimated revenues, and actual expenditures are \$427,939 lower than budgeted expenditures, resulting in an overall variance of \$620,714. The increase in revenues was primarily due to the second year of significant property tax payments. The upward trend of property tax revenues observed in 2012-13 continued through 2013-14, likely attributable to ongoing economic recovery in the Inland Empire. As in 2012-13, management took a conservative approach to budgeting for property tax payments to be received in 2013-14, further adding to the discrepancy between budget and actual revenues. In addition to the higher than anticipated property tax monies, the District also expended a significantly lower total on services and supplies than predicted. This is due primarily to the unpredictable nature of the bulk of work performed by the District; because it depends on the actions and permission of others, the District does experience periodic work interruptions. In 2013-14, project delays resulted in fewer task completions and less spent on such work as a result.

The original budget was reduced mid-year by a net of \$92,958. The projected revenues were adjusted during mid-year budget reviews due primarily to anticipated reductions in mitigation project funds and property tax receipts.

## ***Inland Empire Resource Conservation District***

### **Management's Discussion and Analysis**

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#### **Economic Factors and Next Year's Budget**

The amounts budgeted for revenues and expenditures will increase in the 2014-15 fiscal year. This is due to a predicted rise in work to be performed and associated expenditures, as well as a projected addition of one staffing position. The District also expects the trend in higher overall property tax revenues to continue, as the economic conditions within the Inland Empire continue to improve.

#### **Management**

This financial report is designed to provide the District's customers, stakeholders, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact, Inland Empire Resource Conservation District, 25864-K Business Center Drive, Redlands, California 92376.

**Statement of Net Position**  
**For June 30, 2014**

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**ASSETS**

Cash and cash equivalents	\$ 5,478,774
Due from other governments	15,828
Interest receivable	2,428
Taxes receivable	18,988
Other receivables	82,833
Prepaid expense	13,762
Restricted assets:	
Cash and cash equivalents	2,820,915
Capital assets, net of depreciation	<u>1,441,630</u>
Total assets	<u>9,875,158</u>

**LIABILITIES**

Accounts payable	18,146
Accrued payroll	1,405
Deposits	88,719
Compensated absences payable	<u>19,712</u>
Total liabilities	<u>127,982</u>

**NET POSITION**

Net investment in capital assets	1,441,630
Restricted	
Mitigation projects	2,820,915
Unrestricted	<u>5,484,631</u>
Total net position	<u>\$ 9,747,176</u>

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

**Statement of Activities**  
**For the year ended June 30, 2014**

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**PROGRAM EXPENSES**

Salaries and benefits	\$ 433,598
Services and supplies	577,619
Depreciation	<u>8,835</u>
Total program expenses	<u>1,020,052</u>

**PROGRAM REVENUES**

SAWA projects	112,983
Mitigation funds	284,649
Capital contributions	722,975
Reimbursable grant revenue	<u>9,133</u>
Total program revenues	<u>1,129,740</u>
Net program revenue	<u>109,688</u>

**GENERAL REVENUES**

Property taxes	1,101,179
Investment earnings	23,315
Other	<u>100,630</u>
Total general revenues	<u>1,225,124</u>
Change in net position	1,334,812
Net position - beginning	<u>8,412,364</u>
Net position - ending	<u>\$ 9,747,176</u>

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

**Balance Sheet  
Governmental Fund  
For June 30, 2014**

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**ASSETS**

Cash and cash equivalents	\$ 5,478,774
Due from other governments	15,828
Interest receivable	2,428
Taxes receivable	18,988
Other receivables	82,833
Prepaid expenditures	13,762
Cash - restricted	<u>2,820,915</u>
 Total assets	 <u><u>\$ 8,433,528</u></u>

**LIABILITIES AND FUND BALANCE**

Liabilities:

Accounts payable	\$ 18,146
Accrued payroll	1,405
Deposits	<u>88,719</u>
 Total liabilities	 <u>108,270</u>

Fund balance:

Nonspendable:	
Prepaid expenditures	13,762
Restricted:	
Restricted for mitigation projects	2,820,915
Committed:	
Committed for construction of environmental education center	1,750,000
Committed for purchase of land for mitigation bank	1,500,000
Assigned:	
Six months operating expenditures	974,582
Unassigned:	
Unassigned	<u>1,265,999</u>
 Total fund balance	 <u>8,325,258</u>
 Total liabilities and fund balance	 <u><u>\$ 8,433,528</u></u>

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

**Reconciliation of the Balance Sheet of the  
Governmental Fund to the Statement of Net Position  
For June 30, 2014**

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Total government fund balance	\$ 8,325,258
Amounts reported in governmental activities in the statement of net position are different because:	
Capital assets used in the governmental activities are not current financial resources and, therefore, are not reported in the fund.	1,441,630
Compensated absences payable are not payable from current financial resources and, therefore, are not reported in the fund.	<u>(19,712)</u>
Net position of governmental activities	<u>\$ 9,747,176</u>

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

**Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Fund  
For the Year Ended June 30, 2014**

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**REVENUES**

Property taxes	\$ 1,101,179
SAWA projects	112,983
Mitigation funds	284,649
Investment earnings	23,315
Reimbursable grant revenue	9,133
Other	<u>100,630</u>

Total revenues 1,631,889

**EXPENDITURES**

Salaries and benefits	424,559
Services and supplies	577,619
Capital outlay:	
Vehicles and equipment	<u>8,997</u>

Total expenditures 1,011,175

Net change in fund balance 620,714

Fund balance - beginning 7,704,544

Fund balance - ending \$ 8,325,258

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

**Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balance of the Governmental Fund to  
the Statement of Activities  
For the Year Ended June 30, 2014**

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Net change in fund balance - total governmental fund \$ 620,714

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

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.

Capital outlay	8,997	
Depreciation expense	<u>(8,835)</u>	162

Property contributions reported as revenue in the statement of activities revenue do not provide current financial resources and are not reported as revenue in the governmental fund.

Contributed land	512,000	
Contributed land easement	<u>210,975</u>	722,975

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.

Increase in compensated absences payable		<u>(9,039)</u>
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Change in net position of governmental activities		<u><u>\$ 1,334,812</u></u>
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The accompanying notes are an integral part of these financial statements.

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 1: Nature of Activities and Significant Accounting Policies**

##### Reporting entity

The Inland Empire Resource Conservation District (the District) was created in 2005 to develop programs of soil and water conservation. The Inland Empire Resource Conservation District is the merged entity of East Valley Resource Conservation District, created in 1943, and Inland Empire West Resource Conservation District, created in 1941. It is a subdivision of the state government and is directed by a board of seven locally approved landowners.

The District encompasses areas of land in San Bernardino County and Riverside County. It serves the communities of Alta Loma, Banning, Beaumont, Big Bear Lake, Bloomington, Cabazon, Calimesa, Cherry Valley, Chino, Chino Hills, Colton, Devore, Fontana, Highland, Loma Linda, Lytle Creek, Mentone, Montclair, Muscoy, Ontario, Rancho Cucamonga, Redlands, Rialto, San Antonio Heights, San Bernardino, Upland, Yucaipa, and parts of Riverside.

##### Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements. Currently, the District has only one fund, the "General Fund."

##### Measurement focus, basis of accounting and financial statement presentation

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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 1: Nature of Activities and Significant Accounting Policies (continued)**

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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. All "other revenue" items are considered to be measurable and available only when the government receives the cash.

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

#### Fund accounting

The District 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 District only has one governmental fund.

#### *Governmental Fund*

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

#### Revenues – exchange and non-exchange transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving value in return, include grants, donations and property taxes. On an accrual basis, revenue from grants, donations and property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 1: Nature of Activities and Significant Accounting Policies (continued)**

##### Expenses/expenditures

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on the decrease in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

##### Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

##### Restricted assets

Certain proceeds of the District's revenues are classified as restricted assets on the Statement of Net Position because their use is limited by applicable agreements for mitigation projects and conservation easements. These agreements place no minimum balance, or other restrictions, on the District's ability to expend these funds. The restricted assets are reported on the District's balance sheet accordingly.

##### Property taxes

Secured property taxes are levied in two equal installments, November 1<sup>st</sup> and February 1<sup>st</sup>. They become delinquent with penalties on December 10<sup>th</sup> and April 10<sup>th</sup>, respectively. The lien date is January 1<sup>st</sup> of each year. Unsecured property taxes are due on the March 1<sup>st</sup> lien date and become delinquent with penalties on August 31<sup>st</sup>.

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities and districts based on complex formulas prescribed by the state statutes. The District receives an allocated share of the \$1.00 property tax levied in San Bernardino County. The District receives no property tax allocation from Riverside County.

The District has chosen to participate in the Teeter Alternative Method of Tax Distribution. Under this method, the secured property tax allocation is 100% guaranteed, adjusted by current roll changes only. The other categories of property taxes are distributed as received including penalties.

##### Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

# ***Inland Empire Resource Conservation District***

## **Notes to Financial Statement June 30, 2014**

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### **Note 1: Nature of Activities and Significant Accounting Policies (continued)**

#### Capital assets

Capital assets, which include land, furniture and fixtures, equipment, and vehicles, are reported in the government-wide financial statements. The government defines capital assets as: assets that have an estimated useful life of two or more years and a cost of more than \$1,000, and all capital projects and contributed assets with a fair market value of \$1,000 or more on the date of contribution. Capital assets are capitalized at cost and updated for additions and retirements during the year. Donated capital assets are recorded at estimated fair market value at the date of donation. The District does not possess any infrastructure.

Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Capital assets of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Vehicles	10
Equipment	3 - 7
Furniture and Fixtures	3 - 7

#### Employee compensated absences

Accumulated vacation and sick pay are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. While there is no cap on the accumulation of sick time, District policy states that no employee shall have over 160 hours of accumulated vacation time. The Board of Directors approved in January 2006 a waiver of the 160-hour rule, allowing District employees to carry over 100% of their accumulated vacation time in the new calendar year. Upon leaving the District's employment, the employee will be paid for all of his or her accumulated vacation time and half of his or her accumulated sick time that exceeds 240 hours. The amount due will be determined using salary and wage rates in effect at the time of leave.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 1: Nature of Activities and Significant Accounting Policies (continued)**

##### Fund balance policy

The District follows GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The District Board of Directors, establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The District Manager has the authority, granted by the Board, to commit District resources.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed. It is also the government's policy to consider committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

##### Stewardship, compliance and accountability

###### *Budgetary information*

Budgets are prepared on the modified accrual basis of accounting. The Board must approve amendments or transfers of appropriations between budget line items. The budget is adjusted in January of each year, to reflect the current knowledge and circumstances, which were unavailable at the original adoption.

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 1: Nature of Activities and Significant Accounting Policies (continued)**

##### New Pronouncements

In June of 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expenses/expenditures. The District will be required to recognize a liability equal to the net pension liability in its financial statements prepared using the economic resources measurement focus and accrual basis of accounting.

This pronouncement will be effective for the District's fiscal year ending June 30, 2015.

##### Date of management's review

Subsequent events were evaluated through September 26, 2014, which is the date the financial statements were available to be issued.

#### **Note 2: Cash and Investments**

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 5,478,774
Restricted assets:	
Cash and cash equivalents	<u>2,820,915</u>
Total cash and investments	<u><u>\$ 8,299,689</u></u>

Cash and investments as of June 30, 2014, consisted of the following:

Demand deposits	\$ 105,267
Petty cash	300
CalTRUST Investments	3,805,584
Local Agency Investment Fund	<u>4,388,538</u>
Total cash and investments	<u><u>\$ 8,299,689</u></u>

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 2: Cash and Investments (continued)**

##### Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code and the District's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code (and the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Investment Type</u>	<u>Authorized by Investment Policy</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	Yes	N/A	None	None
U.S. Agency Securities	Yes	N/A	None	None
Negotiable Certificates of Deposit	Yes	N/A	30%	None
Local Agency Investment Fund	Yes	N/A	None	\$ 50,000,000
JPA Pools (other investment pools)	Yes	N/A	None	None
Medium Term Corporate Notes	Yes	5 Years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Mortgage Backed Securities	Yes	N/A	20%	None

##### Authorized investments

The Board of Directors has authorized excess cash to be invested in a manner that will provide the District with the highest investment return. These investments must provide maximum security while meeting daily cash flow demands and conform to all state statutes.

##### 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. The District mitigates interest rate risk by investing primarily in LAIF and CalTRUST.

At June 30, 2014, the District does not hold investments that are highly sensitive to interest rate fluctuations.

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 2: Cash and Investments (continued)**

##### Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provisions for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2014, the District held no deposits with financial institutions in excess of federal depository insurance limits.

The District currently follows GASBS No. 40 which established the way the District discloses credit, custodial, interest rate and foreign currency risks. Currently, custodial and interest rate risk are minimal. The District does not own any foreign currency.

##### 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. Neither LAIF nor CalTrust have a rating provided by a nationally recognized statistical rating organization.

##### Concentration of credit risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Currently, 61% of the District's cash is held with LAIF and 38% of the District's cash is held with CalTrust.

##### Fair value of investments

GASBS No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the District reports its investments at fair value. All investment income, including changes in the fair value of investments, is recognized as revenue in the statement of activities and the statement of revenues, expenditures and changes in fund balance.

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 2: Cash and Investments (continued)**

##### Investment in State investment pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the Treasurer of the State of California, Director of Finance and State Controller. The District may invest up to \$50 million in the LAIF fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the Internet at <http://www.treasurer.ca.gov>.

The District's investment in this pool is reported in the accompanying financial statements at cost which approximates fair value at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

The District is a voluntary participant in the Investment Trust of California (CalTRUST) a Joint Powers Authority. CalTRUST is a program established by public agencies in California for the purpose of pooling and investing local agency funds. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et. seq. and 53635, et. Seq. Investments in CalTRUST are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. The balance available for withdrawal is based on the accounting records maintained by CalTRUST, which are recorded on a fair market value basis. Separate CalTRUST financial statements are available from CalTRUST's offices at 400 Capital Mall, Suite 702, Sacramento, CA 95814.

The District's investment in this pool is reported in the accompanying financial statements at fair market value.

#### **Note 3: Other Receivables**

Much of the District's work is associated with facilitation of mitigation responsibilities in exchange for impacts to natural resources committed in the course of development by a variety of project proponents. The District requires each proponent to remit a deposit to fund all work done by the District. As part of the deposit process, each proponent is also required to sign a deposit agreement, outlining the need for the initial deposit to complete work and referencing the potential need for securing future deposit if the original total was exceeded.

District staff work to ensure deposit amounts are not exhausted prior to securing additional deposits; however, at times the associated and costly legal and consulting performed on these projects can overwhelm deposit funds in the short-term. At June 30, 2014, the district was owed \$82,833 for expenditures incurred in excess of deposits on several projects.

**Inland Empire Resource Conservation District**

**Notes to Financial Statement  
June 30, 2014**

**Note 4: Capital Assets**

Capital asset activity for year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land - donated	\$ 112,000	\$ 512,000	\$ -	\$ 624,000
Land easements - donated	578,000	210,975	-	788,975
Total capital assets, not being depreciated	<u>690,000</u>	<u>722,975</u>	<u>-</u>	<u>1,412,975</u>
Capital assets, being depreciated:				
Equipment	43,480	8,997	-	52,477
Furniture and fixtures	7,982	-	-	7,982
Vehicles	51,858	-	-	51,858
Total capital assets, being depreciated	<u>103,320</u>	<u>8,997</u>	<u>-</u>	<u>112,317</u>
Less accumulated depreciation for:				
Equipment	(36,350)	(5,186)	-	(41,536)
Furniture	(7,361)	(157)	-	(7,518)
Vehicles	(31,116)	(3,492)	-	(34,608)
Total accumulated depreciation	<u>(74,827)</u>	<u>(8,835)</u>	<u>-</u>	<u>(83,662)</u>
Total capital assets, being depreciated, net	<u>28,493</u>	<u>162</u>	<u>-</u>	<u>28,655</u>
Governmental activities - capital assets, net	<u>\$ 718,493</u>	<u>\$ 723,137</u>	<u>\$ -</u>	<u>\$ 1,441,630</u>

**Note 5: Compensated Absences**

Changes in compensated absences during the year ended June 30, 2014 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Compensated absences	<u>\$ 10,673</u>	<u>\$ 23,370</u>	<u>\$ 14,331</u>	<u>\$ 19,712</u>	<u>\$ 4,928</u>

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 6: Related Party Transactions**

Santa Ana Watershed Association (SAWA) is a not-for-profit organization comprised of four local resource conservation districts and one water district. The District holds one seat on the Board of Directors of SAWA. SAWA aids the various districts in their conservation efforts by providing support staff and other services. For the year ended June 30, 2014, the District was paid or accrued \$128,150 for costs incurred related to SAWA projects. The District is owed \$2,514 at June 30, 2014.

#### **Note 7: Risk Management**

The District participates in a joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (the Authority). The Authority is a risk-pooling, self-insurance authority created under the provisions of California Government Code Section 6500 et. sec.

The Authority is governed by a board consisting of a representative from a member agency. The board controls the operations of the Authority including selection of CEO and approval of operating budgets. The relationship between the District and the Authority is such that the Authority is not a component unit of the District for financial reporting purposes.

The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Copies of the Authority's annual financial report may be obtained from their office at 1112 "I" Street, Suite 300, Sacramento, CA 95814. Copies are also available on the Member Plus Portal and mailed to members each year. At June 30, 2014, the District's participation in the self-insurance programs of the Authority was as follows:

Property loss: Insured up to replacement value with a \$1,000 deductible per occurrence for buildings, personal property and mobile equipment; the Authority is self-insured up to \$200,000 SIR. The risk pool has a \$1,000,000,000 limit.

Boiler and machinery coverage: Insured up to replacement value with a \$1,000 deductible per claim for sudden and accidental breakdown of fired and unfired pressure vessels, boilers, heating, air conditioning, machinery and equipment; the Authority is self-insured up to \$10,000 per occurrence and has purchased excess insurance coverage up to \$100,000,000 per occurrence.

General liability: Insured up to \$5,000,000 per occurrence (no aggregate) with a \$500 deductible per occurrence for property damage claims; the Authority is self-insured up to \$250,000 and excess insurance coverage has been purchased.

Auto liability: Insured up to \$5,000,000 per occurrence (no aggregate) with a \$1,000 deductible for property damage.

## ***Inland Empire Resource Conservation District***

### **Notes to Financial Statement June 30, 2014**

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#### **Note 7: Risk Management (continued)**

Employee dishonesty coverage: Insured up to \$400,000 limit.

Public officials and employee errors: Insured up to \$5,000,000 per occurrence and in aggregate.

Personal liability for board members: Insured up to \$500,000 per occurrence and in aggregate.

Vehicle physical damage: Insured for actual cash value at time of loss or actual cost to repair vehicle with a \$500 collision and a \$250 comprehensive deductible.

Workers' Compensation: Statutory. Premiums based on payroll and loss history.

#### **Note 8: Defined Benefit Pension Plan (PERS)**

##### Plan description

The District contributes to the California Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District regulations. Copies of PERS' annual financial report may be obtained from its executive office at 400 P Street, Sacramento, California 95814.

##### Funding policy

Participants are required to contribute 7% of their annual covered salary. Employee contributions amounted to \$22,573 for the year ended June 30, 2014. The contribution requirements of plan members and the District are established and may be amended by PERS. The District's contributions for the year ending June 30, 2014, were \$21,883, equal to the required contributions for the year.

***Inland Empire Resource Conservation District***

**Notes to Financial Statement  
June 30, 2014**

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**Note 9: Operating Leases**

During the year ended June 30, 2008, the District entered into a non-cancelable operating lease agreement for office space. The lease is for sixty (60) months and has been subsequently extended by amendment through October 31, 2016. The lease will become cancelable at the completion of the extended term. Expenditures totaling \$64,900 were charged to operations during the year ended June 30, 2014 for rental payments.

Future minimum payments under non-cancelable operating lease agreements are as follows:

<u>For the year ended June 30,</u>	<u>Amount</u>
2015	\$ 59,320
2016	61,108
2017	<u>20,568</u>
Total minimum future rental payments	<u>\$ 140,996</u>

**Note 10: Contingencies**

As of June 30, 2014, in the opinion of the District's management, there are no outstanding matters which would have a significant effect on the financial position of the District.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Budgetary Comparison Schedule – General Fund  
For the Year Ended June 30, 2014**

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	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Property taxes	\$ 649,901	\$ 650,901	\$ 1,101,179	\$ 450,278
SAWA Projects	100,000	100,000	112,983	12,983
Mitigation funds	350,000	250,000	284,649	34,649
Investment earnings	37,000	37,000	23,315	(13,685)
Reimbursable grant revenue	10,000	10,000	9,133	(867)
Other	388,171	391,213	100,630	(290,583)
	<u>1,535,072</u>	<u>1,439,114</u>	<u>1,631,889</u>	<u>192,775</u>
<b>EXPENDITURES</b>				
Salaries and benefits	440,080	453,880	424,559	29,321
Services and supplies	1,085,992	976,234	577,619	398,615
Capital outlay:				
Vehicles and equipment	9,000	9,000	8,997	3
	<u>1,535,072</u>	<u>1,439,114</u>	<u>1,011,175</u>	<u>427,939</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	620,714	<u>\$ 620,714</u>
Fund balance - beginning			<u>7,704,544</u>	
Fund balance - ending			<u>\$ 8,325,258</u>	



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

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**MEMBERS**

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

California Society of  
Certified Public Accountants

To the Board of Directors  
Inland Empire Resource Conservation District  
Redlands, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Inland Empire Resource Conservation District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26, 2014.

**Internal Control over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

A handwritten signature in black ink that reads "Rogers Anderson Maloney & Scott, LLP". The signature is written in a cursive style with a large, sweeping initial 'R'.

San Bernardino, CA  
September 26, 2014