SANTA ANA WATERSHED ASSOCIATION

FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED
DECEMBER 31, 2016

SANTA ANA WATERSHED ASSOCIATION
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December 31, 2016

SingerLewak
Accountants & Consultants

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, 2016 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.

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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, 2016, 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 undergoing an agreed-upon procedures engagement to determine possible restricted balances pertaining to funds received from the Orange County Water District, a related party. In addition, it 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 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 7 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.

SingerLewak LLP

September 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

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, 2016. Please read it in conjunction with SAWA's financial statements and accompanying notes to those financial statements.

Financial Highlights

- Total net position decreased by $512,666 or 7.2 percent.
- Capital assets increased by $55,975 or 38.3 percent.
- Current assets decreased by $347,188 or 11.1 percent.

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.

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

	December 31, 2016	December 31, 2015	Change
Current assets	$ 2,783,565	$ 3,130,753	$ (347,188)
Noncurrent assets			
Restricted assets	3,820,687	3,994,519	(173,832)
Deposits	9,532	-	9,532
Capital assets	202,002	146,027	55,975
Total assets	6,815,786	7,271,299	(455,513)
Current liabilities	160,889	114,830	46,059
Noncurrent liabilities	51,217	40,123	11,094
Total liabilities	212,106	154,953	57,153
Net position			
Invested in capital assets	202,002	146,027	55,975
Nonexpendable restricted	38,981	38,981	-
Expendable restricted	3,781,706	3,955,538	(173,832)
Unrestricted	2,580,991	2,975,800	(394,809)
Total net position	**$ 6,603,680**	**$ 7,116,346**	**$ (512,666)**

Net position decreased by $512,666, as seen in Table 1. The decrease in current assets and restricted assets is due to the outflow of cash exceeding the amounts of cash received in the current year. Some of 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 office furniture and equipment for the new administration office and the purchase of a truck. The increase in total liabilities is mostly due to the increase in compensated absences, the year-end payroll accrual encompassing a whole pay period and normal variances in year-end accounts payable and accrued liabilities.

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 $512,666 in the current year is the result of excess expenses over revenues.

Table 2

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

	December 31,		
	2016	2015	Change
Operating revenues	$ 1,130,113	$ 910,263	$ 219,850
Operating expenses	(2,048,114)	(1,789,831)	(258,283)
Net operating loss	(918,001)	(879,568)	(38,433)
Nonoperating revenues	129,521	25,986	103,535
Gain/(loss) on disposal of capital assets	-	10,405	(10,405)
Investment income/(loss)	280,814	(74,854)	355,668
Nonoperating expenses	(5,000)	(12,998)	7,998
Net nonoperating revenues (expenses)	405,335	(51,461)	456,796
Change in net position	(512,666)	(931,029)	418,363
Net position, beginning of year	7,116,346	8,047,375	(931,029)
Net position, end of year	**$ 6,603,680**	**$ 7,116,346**	**$ (512,666)**

SAWA's operating revenues less operating expenses net to a loss of $918,001. A significant portion of this operating loss is 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 income is attributed mostly to dividends earnings of $157,936, the unrealized gain on the investment portfolio of $133,726 and the realized loss on the sale of investments of $10,848. SAWA also recognized $44,339 in pension forfeitures during the year-end December 31, 2016.

Capital Assets

As can be seen in Table 3, as of December 31, 2016, SAWA has $202,002 invested in capital assets (net of accumulated depreciation).

Table 3
Capital Assets

	December 31, 2016	December 31, 2015	Change
Field equipment	$ 73,977	$ 55,592	$ 18,385
Vehicles	73,931	39,250	34,681
Office equipment	48,324	70,891	(22,567)
Leasehold improvements	2,585	17,281	(14,696)
	198,817	183,014	15,803
Accumulated depreciation	(90,552)	(130,724)	40,172
Conservation easement	93,737	93,737	-
Net capital assets	**$ 202,002**	**$ 146,027**	**$ 55,975**

The increase of $55,975 can be summarized as follows:

- Current year purchases amounted to $81,163.
- Current year depreciation expense amounted to $25,188.
- Current year disposals of fully depreciated capital assets with a cost basis of $65,360.

Long-term Debt

Currently SAWA has no long-term debt obligations, other than compensated absences payable. The long-term portion of compensated absences increased by $11,094 from the prior year. This increase is related to vacation time that was accrued but not used, and therefore carried over for use in subsequent years.

Economic Factors and Next Year's Budget

SAWA will be entering into the second year of a two-year $650,000 agreement with U.S. Fish and Wildlife Service to provide Vireo Monitoring and Cowbird Trapping in the Santa Ana Watershed through December 2017. We are in negotiations to make this a longer term agreement. The Riverside County Flood Control and Water Conservation District has approved a $135,000 contract for Tamarisk and invasive plant removal at Lake Elsinore Outlet Channel and Gunnerson Pond. Work for this project began January 2017.

SAWA has budgeted an additional $155,700 in restoration projects and biological monitoring and reporting with State and local government agencies for 2017.

SAWA also has a one-year $927,000 biological services contract with the Western Riverside Regional Conservation Authority to support the MSHCP.

SAWA anticipates closing out at least three mitigation projects during 2017. Closing out these mitigations will eliminate SAWA's obligation to continue funding mitigation in these areas.

Our goal for 2017 is to preserve mitigation funds in the investment pool and to not use them to support the overhead burden of running the Association. Through including an overhead charge in SAWA's billable rates, SAWA will be able to recover most of its overhead in the services performed for third parties.

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 Hugh Wood, Executive Director, Santa Ana Watershed Association, Post Office Box 5407, Riverside, California, 92517.

FINANCIAL STATEMENTS

SANTA ANA WATERSHED ASSOCIATION

STATEMENTS OF NET POSITION
(WITH COMPARATIVE TOTALS)
December 31, 2016 and 2015

ASSETS

	2016	2015
Current assets		
Cash and investments	$ 2,301,565	$ 2,733,795
Accounts receivable	19,455	17,048
Due from governments	421,422	341,016
Dividends receivable	2,049	2,686
Herbicide inventory	12,506	15,031
Prepaid expenses	26,568	21,177
Total current assets	2,783,565	3,130,753
Noncurrent assets		
Restricted cash and investments	3,820,687	3,994,519
Deposits	9,532	-
Capital assets not being depreciated	93,737	93,737
Capital assets, net of accumulated depreciation	108,265	52,290
Total noncurrent assets	4,032,221	4,140,546
Total assets	**$ 6,815,786**	**$ 7,271,299**

LIABILITIES

	2016	2015
Current liabilities		
Accounts payable and accrued liabilities	$ 48,619	$ 32,711
Accrued compensation and benefits	80,854	59,157
Compensated absences payable	21,950	17,195
Related party payable	9,466	5,767
Total current liabilities	160,889	114,830
Noncurrent liabilities		
Compensated absences payable	51,217	40,123
Total noncurrent liabilities	51,217	40,123
Total liabilities	**$ 212,106**	**$ 154,953**

NET POSITION

	2016	2015
Invested in capital assets	$ 202,002	$ 146,027
Nonexpendable restricted net position	38,981	38,981
Expendable restricted net position	3,781,706	3,955,538
Unrestricted	2,580,991	2,975,800
Total net position	**$ 6,603,680**	**$ 7,116,346**

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

SANTA ANA WATERSHED ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (WITH COMPARATIVE TOTALS)

Years Ended December 31, 2016 and 2015

	2016	2015
Operating revenues		
Wildlife and habitat management services	$ 454,204	$ 530,650
Habitat restoration services	352,021	354,407
Mitigation fees	170,000	-
Brown headed cowbird trapping	153,888	18,346
Grant revenues	-	6,860
Total operating revenues	1,130,113	910,263
Operating expenses		
Personnel services	1,196,898	989,445
Administration and overhead	388,685	343,810
Project expenses	345,563	356,887
Travel, mileage and conferences	69,113	53,721
Depreciation	25,188	16,949
Field testing and supplies	18,819	23,250
Educational supplies	3,848	5,769
Total operating expenses	2,048,114	1,789,831
Operating loss	(918,001)	(879,568)
Nonoperating revenues (expenses)		
Investment income/(loss)	280,814	(74,854)
Other income	129,521	25,544
Contributions received	-	442
Gain on disposal of capital assets	-	10,405
Contributions to others	(5,000)	(12,998)
Nonoperating revenues (expenses)	405,335	(51,461)
Changes in net position	(512,666)	(931,029)
Net position - beginning of year	7,116,346	8,047,375
Net position - end of year	**$ 6,603,680**	**$ 7,116,346**

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

STATEMENTS OF CASH FLOWS
(WITH COMPARATIVE TOTALS)
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash received from customers	$ 1,176,821	$ 741,477
Cash received from grants	-	352,910
Cash payments to employees	(1,156,333)	(993,657)
Cash payments to suppliers for goods and services	(826,839)	(816,486)
Net cash used in operating activities	(806,351)	(715,756)
Cash flows from capital and related financing activities		
Cash paid to acquire capital assets	(81,164)	(15,810)
Cash received from disposal of capital assets	-	10,997
Net cash used in capital and related financing activities	(81,164)	(4,813)
Cash flows from investing activities		
Sale of investments	747,593	712,334
Purchase of investments	(2,797,792)	(246,116)
Dividends received on investments	158,573	256,004
Net cash provided by (used in) investing activities	(1,891,626)	722,222
Change in cash and cash equivalents	(2,779,141)	1,653
Cash and cash equivalents, beginning of year	2,883,650	2,881,997
Cash and cash equivalents, end of year	**$ 104,509**	**$ 2,883,650**
Reconciliation of cash and cash equivalents to the statement of net position		
Cash and investments - unrestricted	2,301,565	2,733,795
Cash and investments - restricted	3,820,687	3,994,519
Less mutual funds	(6,017,743)	(3,844,664)
Total cash and cash equivalents	**$ 104,509**	**$ 2,883,650**

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

SANTA ANA WATERSHED ASSOCIATION

STATEMENTS OF CASH FLOWS

(WITH COMPARATIVE TOTALS)

Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (918,001)	$ (879,568)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	25,188	16,949
Contributions to others	(5,000)	(12,998)
Contributions received	-	442
Other income (expense)	129,521	25,544
Changes in operating assets and liabilities:		
Accounts receivable	(2,407)	(16,972)
Due from governments	(80,406)	185,517
Herbicide inventory	2,525	(3,104)
Prepaid income taxes	-	1,694
Prepaid expenses	(5,392)	(1,050)
Deposits	(9,532)	-
Accounts payable and accrued liabilities	15,908	(24,770)
Accrued compensation and benefits	21,697	8,731
Compensated absences payable	15,849	(9,799)
Related party payable	3,699	(6,372)
Total adjustments	111,650	163,812
Net cash used in operating activities	**$ (806,351)**	**$ (715,756)**
Noncash capital, financing, and investing activities		
Noncash investing activities:		
Net unrealized gain/(loss)	$ 133,726	$ (301,013)

The accompanying notes are an integral part of these 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.

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.

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.

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

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory
Inventory consists of herbicides carried at the lower of cost or market, and cost is determined on the 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 $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.

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. For leased employees, an offsetting receivable is recorded to recognize the leasing agency's obligation to reimburse SAWA for this expense. This amount is included in due from governments on the statement of net position.

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.

Revenues (operating and nonoperating)
SAWA receives mitigation fees from developers for SAWA's programs to maintain a healthy Santa Ana River Watershed. Mitigation fees are considered operating revenues. Revenues received from investment earnings and contributions are considered nonoperating revenue.

Implementation of New Pronouncements
In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It also requires measurement at acquisition value for donated capital assets, which were previously required to be measured at fair value. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of New Pronouncements (Continued)
In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). This statement identifies the hierarchy of GAAP used to prepare financial statements of state and local governmental entities. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015, and should be applied retroactively.

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 December 15, 2019. SAWA is in the process of determining the potential impact of this statement on its financial statements.

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of December 31, 2016 are classified in the accompanying financial statements as follows:

Statement of net position	
Cash and investments	$2,301,565
Cash and investments – restricted	3,820,687
Total cash and investments	**$6,122,252**

NOTE 3 – CASH AND INVESTMENTS (Continued)

Cash and investments as of December 31, 2016 consist of the following:

Deposits with financial institutions	$ 104,509
Mutual funds invested into debt securities	3,652,246
Mutual funds invested into equity securities	2,365,497
Total cash and investments	**$6,122,252**

At December 31, 2016 cash and investments were restricted for the following purposes:

Riparian/wetland habitat along San Timoteo Creek	$1,066,706
In-lieu fee mitigation program	2,715,000
Mockingbird II Conservation Easement Endowment Fund	38,981
Total restricted cash and investments	**$3,820,687**

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 Income and Growth asset allocation (45 percent equities, 45 percent fixed income, and 10 percent cash) as economic conditions subject to board approval. 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.

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. Presented below is the minimum rating required by (where applicable) SAWA's investment policy, and the actual rating as of year-end for each investment type.

As of December 31, 2016:

Investment Type	Minimum Rating	Standard & Poor Ratings as of Year-end AAAm	AAA	aa+	Not Rated
Mutual funds - debt	N/A	$ -	$ -	$ -	$ 3,652,246
Total	N/A	**$ -**	**$ -**	**$ -**	**$ 3,652,246**

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 statements 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, 2016, 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, 2016, SAWA's investments held at the financial institution exceeded the SIPC limit by $5,517,743, which would be protected under the Lloyd's of London syndicate policy subject to its aggregate limit. SAWA has no uninsured cash balances at December 31, 2016.

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. Disclosure requirements for fair value were adopted in the year ended December 31, 2016. Although the fair value disclosures for investments have been revised, there has been no change in the methodologies used at December 31, 2016:

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.

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, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds invested into debt securities	$3,652,246	$ -	$ -	$3,652,246
Mutual funds invested into equity securities	2,365,497	-	-	2,365,497
	$6,017,743	**$ -**	**$ -**	**$6,017,743**

At December 31, 2016, SAWA had no investments in repurchase and reverse repurchase agreements and did not invest in such during the years then ended.

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:

Type of Insurance	Each Occurrence Limit	Aggregate Limit
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	$ 2,000,000

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, 2016, 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.

NOTE 5 – CAPITAL ASSETS

The following is a summary of changes in capital assets for SAWA at December 31, 2016:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital assets being depreciated:				
Field equipment	$ 55,592	$ 19,812	$ (1,427)	$ 73,977
Vehicles	39,250	34,681	-	73,931
Office equipment	70,891	24,085	(43,652)	48,324
Leasehold improvements	17,281	2,585	(17,281)	2,585
	183,014	81,163	(65,360)	198,817
Less accumulated depreciation for:				
Field equipment	(40,427)	(8,452)	1,427	(47,452)
Vehicles	(16,350)	(11,316)	-	(27,666)
Office equipment	(56,666)	(5,291)	46,652	(15,305)
Leasehold improvements	(17,281)	(129)	17,281	(129)
	(130,724)	(25,188)	65,360	(90,552)
Net assets being depreciated	52,290	55,975	-	108,265
Capital assets not depreciated:				
Conservation easement	93,737	-	-	93,737
Net assets not being depreciated	93,737	-	-	93,737
Total capital assets, net	**$ 146,027**	**$ 55,975**	**$ -**	**$202,002**

Depreciation expense was $25,188 for the year ended December 31, 2016.

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, 2016, SAWA contributed $48,072, net of forfeitures of $44,339, to the plan while SAWA employees contributed $110,755, to the plan inclusive of amounts reimbursed and withheld for leased employees.

NOTE 7 – ADMINISTRATIVE OFFICE LEASE

In August 2011, SAWA entered into a two-year lease for administrative office space. Under the term of the agreement, SAWA is to pay monthly $1,808 for the use of the office space plus custodial services. The utilities are invoiced quarterly by the lessor and are a percentage of the actual costs for electrical service, natural gas and refuse collection. The lease was extended in August 2013 for an additional two years and extended again in June 2015 until July 30, 2016. After July 2016, SAWA continued to rent these facilities on a month-to-month basis until October 2016. Under the extended terms, rent decreased to $1,733 per month plus janitorial supplies. For the year ended December 31, 2016, SAWA incurred $18,639 in costs under the lease agreement. SAWA rent terminated in October 2016 when new facilities were leased.

NOTE 7 – ADMINISTRATIVE OFFICE LEASE (Continued)

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, 2016, SAWA incurred $16,957 in costs under the lease agreement. The following is a schedule of minimum payments over the next five years excluding operating expenses:

Year ended December 31	Amount
2017	$ 67,923
2018	69,624
2019	71,364
2020	73,149
2021	74,973
Thereafter	56,153
Total	**$338,213**

NOTE 8 – 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, 2016, SAWA incurred $2,628 in costs under the lease agreement.

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

Year ended December 31	Amount
2017	$ 15,846
2018	16,316
2019	16,800
2020	17,306
2021	14,780
Total	**$ 81,048**

NOTE 9 – 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, 2016:

	OCWD	IERCD	SJBRCD	TEAM RCD	RCRCD	Total
Due from governments	$ 45,145	$ 56,135	$ 207	$ 1,885	$ -	$ 103,372
Related party payable	(4,393)	(5,073)	-	-	-	(9,466)
	$ 40,752	**$ 51,062**	**$ 207**	**$ 1,885**	**$ -**	**$ 93,906**

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, 2016:

	OCWD	IERCD	SJBRCD	TEAM RCD	RCRCD	Total
Habitat restoration fees	$ 9,007	$ 51,824	$19,838	$ 91	$ -	$ 80,760
Biological monitoring revenue	165,594	85,050	-	1,885	-	252,529
Project expense	(113,420)	(97,135)	-	-	-	(210,555)
Other expenses	-	-	(18,000)	(19,125)	(18,000)	(55,125)
	$ 61,181	**$ 39,739**	**$ 1,838**	**$(17,149)**	**$(18,000)**	**$ 67,609**

NOTE 10 – EXPENDABLE RESTRICTED FUNDS

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, 2016, $1,066,706 was reflected on the financial statement as part of restricted cash and investments and as a component of expendable restricted net position.

NOTE 10 – EXPENDABLE RESTRICTED FUNDS (Continued)

In-lieu Fee Mitigation Program
The United States Army Corps of Engineers (USACE) has required SAWA to establish a separate restricted cash account that is FDIC insured to hold in-lieu fee mitigation monies received but not placed as of June 30, 2013. This account was established in April 2014 and $2,715,000 was transferred to the account. During 2016, SAWA received permission from USACE to hold these funds with its existing investments rather than in a separate account and the separate cash account was closed. At December 31, 2016, $2,715,000 was reflected, on the financial statement as part of restricted cash and investments and as a component of expendable restricted net position.

NOTE 11 – NONEXPENDABLE RESTRICTED FUNDS

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 as a component of nonexpendable restricted net position.

NOTE 12 – ANTICIPATED CHANGES TO NET POSITION

Restricted Balance Clarification Agreement with Orange County Water District
SAWA and Orange County Water District (“OCWD”), a related party, entered into an agreement on August 8, 2013. Terms of this agreement required an Agreed-Upon Procedures (AUP) engagement to be performed to determine the amount of money SAWA holds that is attributable to OCWD’s projects and contributions. Any remaining OCWD funds held by SAWA would be considered held in trust and would represent restricted balances. The amount of the trust funds resulting from trust fund activities and investment earnings over the period July 1997 through the date of these financial statements is unknown, as the AUP engagement is incomplete as of the date of these financial statements. Work on this engagement is ongoing. As a result, no related cash or net position restrictions are included in SAWA’s financial statements as of December 31, 2016.

NOTE 12 – ANTICIPATED CHANGES TO NET POSITION (Continued)

Administrative Cost Reallocation
SAWA has identified that administrative costs were not properly allocated in the past for the Reach 3B project and is currently negotiating to reallocate prior costs. The effect of these potential reallocations on unrestricted and expendable restricted net position has not been determined.

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 restriction 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 the these issues, potential changes to unrestricted and restricted balances were considered by management to be un-estimable as of September 20, 2017, the date these financial statements were available to be issued.

NOTE 13 - CONCENTRATION

A significant portion of SAWA's operating revenue came from four organizations which represent 80 percent of all operating revenue for the year ended December 31, 2016. As of December 31, 2016, 34 percent of accounts receivable were due from three of these organizations. As of December 31, 2016, an additional 43 percent of accounts receivable were due from a fifth organization, to whom SAWA leases biological staff.

NOTE 14 – RISKS AND UNCERTAINTIES

SAWA invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term. The volatility of the market and credit institutions after December 31, 2016, could have a significant, negative effect on SAWA's investments.

NOTE 15 – SUBSEQUENT EVENTS

In the preparation of these financial statements, SAWA considered subsequent events through September 20, 2017 which is the date these financial statements were issued.