



*Rancho Cucamonga, California*

# Annual Financial Report



**Fiscal Year Ended  
June 30, 2016**

# Annual Financial Report

## INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY

12645 Sixth Street  
Rancho Cucamonga, CA 91739

P.O. Box 2470  
Chino Hills, CA 91709

Fiscal Year Ended  
June 30, 2016

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Prepared by  
Inland Empire Utilities Agency  
Finance and Accounting Department



Poster artwork by  
**Ursula Gutowski**  
of Niles, IL.

Winner of the  
U.S. Composting  
Council's 2016  
International  
Composting  
Awareness Week  
Poster Contest



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**INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2016**

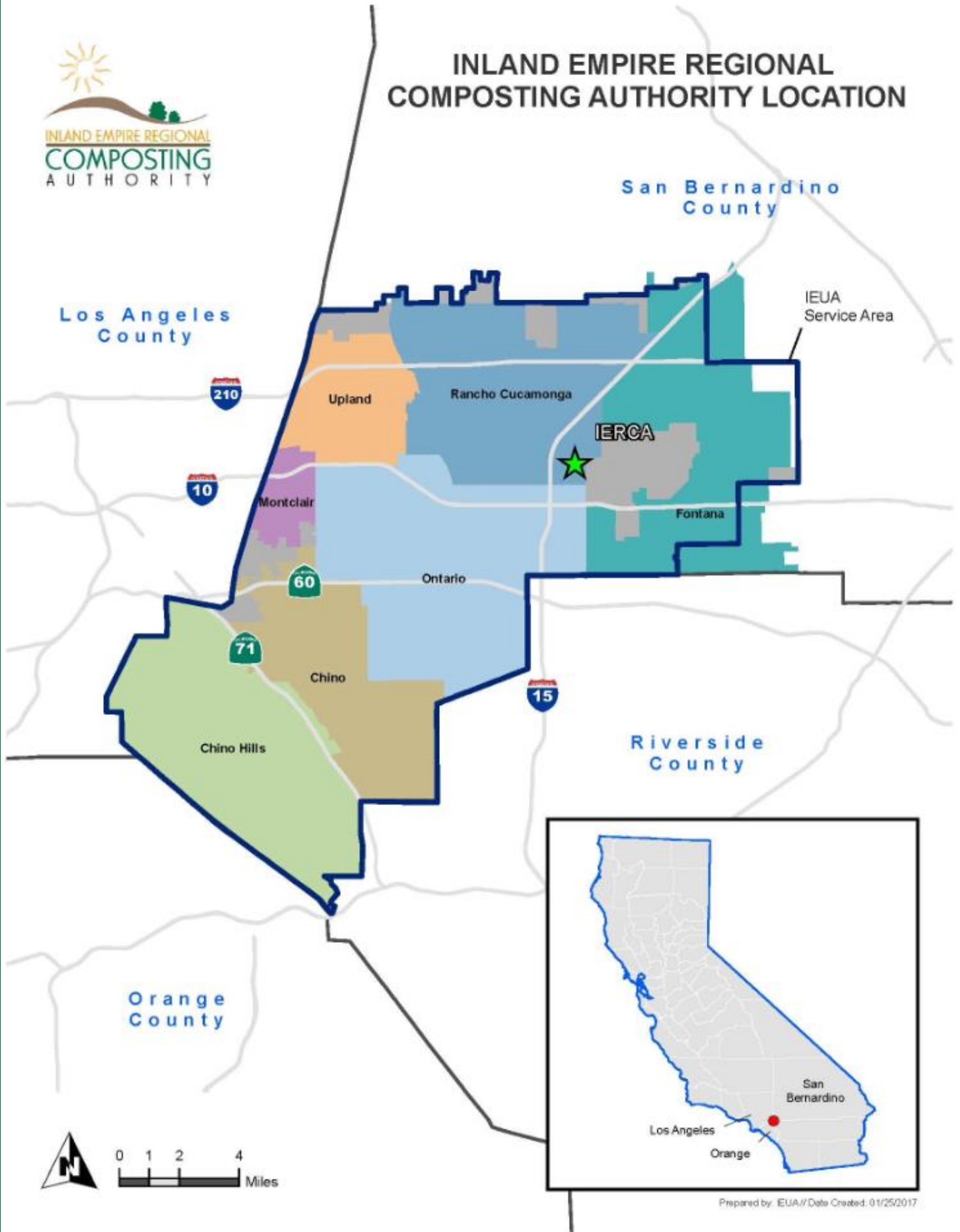
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# INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY LOCATION





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PO Box 2470 Chino Hills, CA 91709  
Phone: (909) 993-1500 Fax: (909) 993-1510  
www.ierca.org

***Quality Products for Healthy Soil***

February 01, 2017

To the Chairperson of the Inland Empire Regional Composting Authority Board, Members of the Board, and Joint Powers Authority members of the Inland Empire Regional Composting Authority.

The Annual Financial Report of the Inland Empire Regional Composting Authority (IERCA or the Authority) is hereby submitted for the Fiscal Year ended June 30, 2016. State and local ordinances and statutes require the Authority to annually publish a report of its financial condition and activities, audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

Accounting principles generally accepted in the United States of America requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

***Management Responsibility for Financial Information***

The Finance and Accounting Department of Inland Empire Utilities Agency (IEUA) prepared this report. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the Authority's and IEUA's management. To the best of management's knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. Disclosures are presented to enable the reader to gain an understanding of the Authority's financial activities.

**INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY PROFILE**

**Up to the Present**

The IERCA was formed February 27, 2002 as a Joint Powers Authority (JPA) to divert organic solids from landfill disposal and to recycle organic products generated from within the community. IEUA and Sanitation District No. 2 of Los Angeles County (SDLAC) entered into the JPA to implement the shared goal to develop a sustainable biosolids management project.

The Authority is governed by a six member Board, comprised of two governing board members from each JPA member agency and their respective General Manager. The Chief Financial Officer/Assistant General Manager of IEUA serves as the Treasurer of the Authority.

In March 2007, the two joint powers agencies completed construction of the Inland Empire Regional Composting Facility (IERCF). As the nation's largest indoor biosolids composting facility, it consists of 445,275 square feet. The IERCA focuses on producing top quality compost under the guidelines outlined in the US Composting Council's Seal of Testing Assurance (STA) program.

## **INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY PROFILE (continued):**

### **Up to the Present (continued):**

Operations at the facility began in April 2007, and reached full capacity in December 2008. At full capacity, the IERCF receives and processes over 200,000 wet tons of biosolids and wood waste from local communities, and produces approximately 250,000 cubic yards (98,000 tons) of high-quality compost each year.



The facility is staffed by twenty-four full-time IEUA employees, and one part time employee from SDLAC. The employees are onsite seven days per week, and conduct all operational activities including production, maintenance, safety and industrial hygiene training, sales and administration.

The IERCA produces compost using the aerated static pile (ASP) composting method by mixing together organic material in large piles instead of in traditional windrows. Aeration occurs as air is pushed or pulled through the ASP. IERCF pulls air directly from the piles and sends the air to a biofilter along with air exchange through the composting building. The biofilter is 50,000 cubic yards of a special blend of wood chips that treats all of the air by removing odors and other regulated compounds before it is exhausted to the atmosphere.

The entire composting process at the IERCF takes approximately 60 days. Active composting lasts approximately 22 days before the pile is moved into curing. The material is stabilized in curing for 30 to 38 days. After curing, the compost is screened and is then ready for distribution and use.

The composted product, which is marketed as SoilPro Premium Compost, has been sold as a soil conditioner which helps improve water retention resulting in better plant growth and water savings. Compost products are also proven to produce direct benefits to soils and crops in both horticulture (lawns and gardens) and agriculture (vegetables, fruits, nuts, and hay crops).



In order to produce recycled products year-round, the IERCA completed the compost storage facility in 2010 to allow compost storage during the winter season.

Additionally, the Authority entered into a Power Purchase Agreement (PPA) with Sunpower, Inc. in 2010 for the installation of 1 megawatt of solar panels on the rooftop of the facility. The solar panel system is currently providing about half of the facility's required electrical power during operating hours.

## **MAJOR INITIATIVES and ACCOMPLISHMENTS**

During the fiscal year ended June 30, 2016, the IERCF staff focused on expanding the compost marketing program and working with farmers to develop sales in the agricultural marketplace. The agricultural market has the potential to purchase and use all of the compost produced at the IERCF. Staff increased the customer base and there are approximately 140 customers purchasing SoilPro with six customers signed to a one year take or pay contracts.

A tiered pricing system was initiated offering incentives to customers who purchase large volumes of compost in exchange for pricing discounts. The system successfully increased sales. The new tiered compost pricing structure is shown in table 1.

Table 1:

| Tier          | Cubic Yards (CYDs)/Month | Premium (Cubic Yard) |
|---------------|--------------------------|----------------------|
| 1 (will call) | <499                     | \$5.00               |
| 2             | 500-999                  | \$4.00               |
| 3             | ≥1,000                   | \$3.50               |

### **Major Initiatives for FY 2016/2017**

The IERCA continues to see positive results from the “Give Back” program and extended it through fiscal year 2017/2018. The program offers SoilPro compost at no charge to cities and municipalities affiliated with IEUA and SDLAC. Approximately 24,000 cubic yards of material have been used through the program.

Staff will continue to focus on projects to increase the safety and efficiency of the composting facility. These projects include: 1) Baghouse and dust improvement project designed to improve safety hazards and improvements in collecting and removing dust from trommel screens; 2) Microbial Culture Collection (MCC) & Heating, Ventilation, and Air Conditioning (HVAC) improvements to prepare, replace, and upgrade existing air conditioning (A/C) system to provide safe work environment; and 3) replacement of exposed fire sprinkler system.



**SoilPro being spread onto a farm in Riverside County**

## **MAJOR INITIATIVES and ACCOMPLISHMENTS (continued):**

### **Major Initiatives for FY 2016/2017 (continued):**

#### **◆ Baghouse Evaluation**

- Baghouse safety hazard evaluation;
- System improvements in collecting & removing dust from trommel screens;
- New ducting and safety suppression Canisters;
- Baghouse safety compliance, removal, or system upgrade;



**Trommel Screens Dust Collection**

#### **◆ MCC HVAC Improvements**

- The existing MCC HVAC system evaluation for system upgrades and replacements;
- Upgrade the electrical system and communication via the Supervisory Control & Data Acquisition (SCADA) system.

### **Major Accomplishments for FY 2015/2016**

#### **◆ Process Improvements:**

- Reduced loader traffic between compost-curing areas;
- Increased energy savings, higher performance, improved safety;
- Improved belt conveyors (BC) system;
- Improved amendment hopper (AH) bottom plates with stronger material;
- Improved amendment hopper augers;
- Improved air quality



**Belt Conveyors #18 Modifications**



## **FINANCIAL INFORMATION**

### **Internal Controls**

The Management of the Authority is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Authority are protected from loss, theft or misuse, and to compile sufficient reliable information for the preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America.

The internal control structure is designed to provide reasonable rather than absolute assurance the financial statements will be free from material misstatement and that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not outweigh the benefits likely to be derived; and, the valuation of costs and benefits requires estimates and judgments by management.

As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

### **Budgetary Controls**

The Authority maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annually appropriated budget approved by the Authority's Board of Directors. The level of budgetary control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) is set at the category level (i.e., Capital and Operating) within the Authority. The Authority maintains an encumbrance accounting system as an additional method of maintaining budgetary control. Encumbered amounts lapse at year-end. However, outstanding encumbrances are generally re-appropriated as part of the following fiscal year's budget following Board approval.

### **Independent Audit**

State statutes require an annual audit by independent certified public accountants. The Authority's Board of Directors appointed the firm of Lance, Soll & Lunghard, LLP to perform the annual audit. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for the fiscal year ended June 30, 2016 are free of any material misstatement. As part of the independent audit, reviews on a test basis were made to determine the adequacy of internal controls, and to ensure compliance with applicable laws and regulations related to all financial activities conducted by the Authority. Generally accepted auditing standards, issued by the Controller General of the United States of America, were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements is included in the financial section of this report.

The independent audit concluded, based upon the audit, that there was reasonable basis for rendering an unmodified opinion that the Inland Empire Regional Composting Authority's financial statements for the year ended June 30, 2016 are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

## **FINANCIAL INFORMATION (continued):**

### **Cash and Investment Management**

The Authority has a comprehensive cash and investment program subject to California Government Code Sections 53601, 53607, 53635, 53638, 53646, 53652, and 53653. These regulations are incorporated into the Authority's Investment Policy, which identifies the types of investments that are authorized and indicates any restrictions.

Consistent with Government Code Section 53646, the Authority annually adopts an investment policy that requires the IERCA to invest funds in a manner which will provide: (i) the maximum security; (ii) the funds necessary to meet the daily cash flow demands of the Authority; and (iii) the highest investment return while conforming to all statutes governing the investment of Authority funds within the constraints of the investment policy. By adoption of the policy, it is the intent of the Authority to minimize credit and market risks, while maintaining a competitive yield on its overall portfolio.

The Authority's cash management system is also designed to forecast revenues and expenses accurately, and to invest idle funds to the fullest extent possible. During the Fiscal Year ended June 30, 2016, idle funds were invested in accordance with this policy. These investments consisted primarily of deposits in a pooled investment fund administered by the Los Angeles County Investment Officer.

In order of priority, the Authority's objectives when investing, reinvesting, purchasing, acquiring, selling, enhancing and managing public funds are as follows:

1. **Safety:** *Safety of principal is the foremost objective of the investment program. Investments made by the Authority shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent any potential loss on any individual security or depository from exceeding the income generated from the remainder of the portfolio.*
  
2. **Liquidity:** *The investment portfolio will remain sufficiently liquid to enable the Authority to meet all operating requirements that might be reasonably anticipated.*
  
3. **Return on Investments:** *The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to safety and liquidity objectives described above. The core investment is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:*
  - A. *A security with declining credit may be sold to minimize loss of principal.*
  - B. *A security swap that would improve quality, yield, or target duration in the portfolio.*
  - C. *Liquidity needs of the portfolio that require the security to be sold.*

**FINANCIAL INFORMATION (continued):**

**Cash and Investment Management (continued):**

All cash and investment transactions are conducted in accordance with the Authority's resolutions and Investment Policy. While management recognizes that investment risks may result from issuer defaults, market price changes or various technical complications leading to temporary liquidity, portfolio diversification is employed as a way to minimize these risks.

**Acknowledgements**

We acknowledge the thorough and professional manner in which the external auditors, Lance, Soll & Lunghard, LLP, conducted the audit. Additionally, we would like to acknowledge the staffs from the member agencies of the Authority for their cooperation and contribution in providing the necessary information to complete this report.

Respectfully submitted,

Christina Valencia, Treasurer

**INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY**

***Principal Officials***

***June 30, 2016***

**BOARD OF DIRECTORS**

Jon Blickenstaff, *Chairperson*  
Gene Koopman, *Vice-Chairperson*  
Grace Robinson Hyde *Director*  
Margaret Finlay, *Director*  
Jasmin A. Hall, *Director*  
P. Joseph Grindstaff, *Director*

**OFFICERS OF THE AUTHORITY**

Jeffrey Ziegenbein, *Project Manager*  
Ann Heil, *Assistant Project Manager*  
Christina Valencia, *Treasurer*

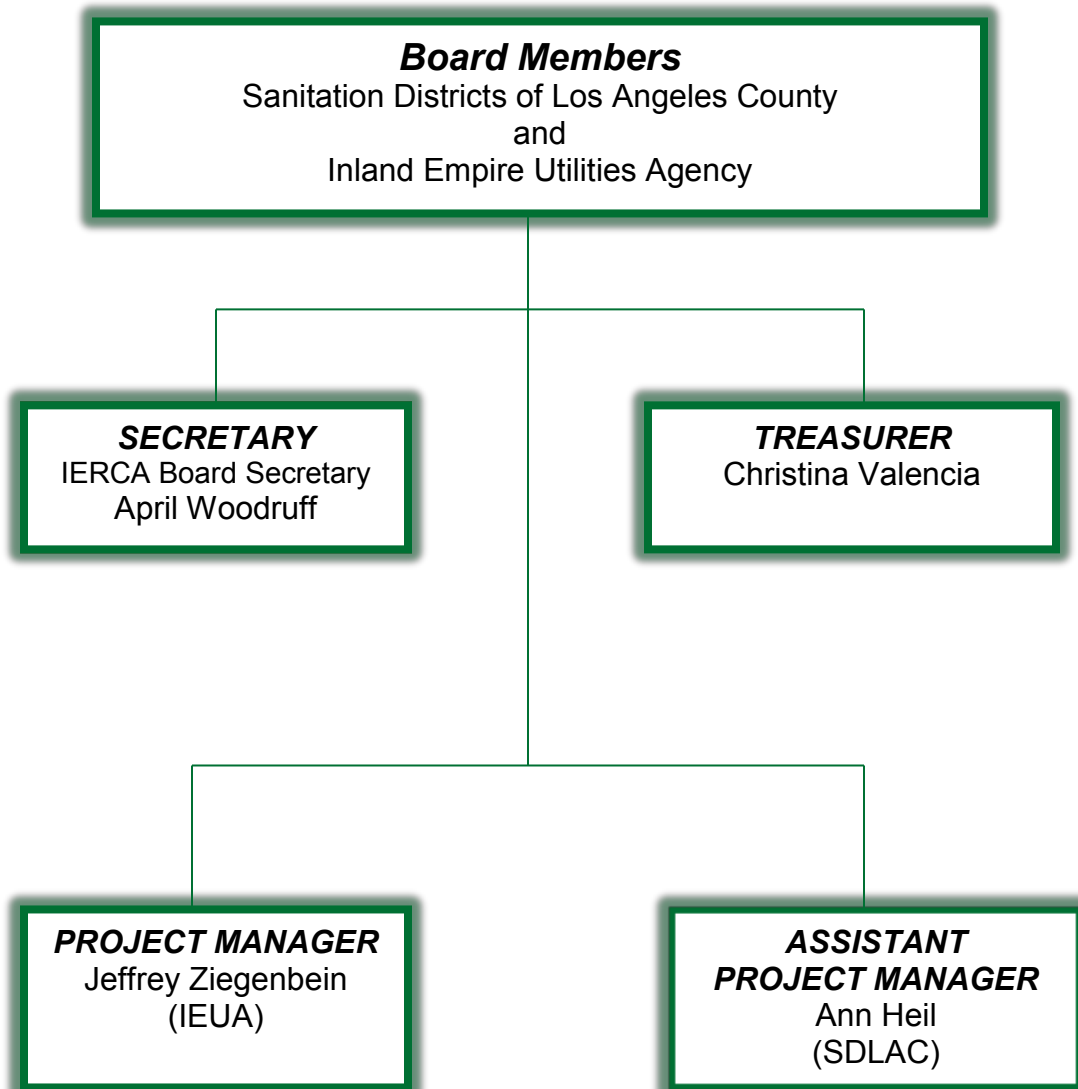
**LEGAL COUNSEL**

JC Law Firm  
Jean Cihigoyenette, APC  
Chino Hills, California

# ***Inland Empire Regional Composting Authority***

## Organizational Chart

June 30, 2016





Storage facility in December completely empty.



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Inland Empire Regional Composting Authority  
Chino, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Inland Empire Regional Composting Authority (the Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inland Empire Regional Composting Authority, as of June 30, 2016, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.





To the Board of Directors  
Inland Empire Regional Composting Authority  
Chino, California

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

*Prior Year Comparative Information*

The financial statements include (partial or summarized) prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2015, from which such partial information was derived. The prior year was audited by another auditor and received an unmodified opinion, therefore, we provide no assurance on the prior year information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Brea, California  
January 3, 2017



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The intent of the management's discussion and analysis is to provide highlights of the Authority's financial activities for the fiscal year ended June 30, 2016. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

### The Authority's Operations – an Overview

As a Joint Powers Authority, the Inland Empire Regional Composting Authority (IERCA or the Authority) owns a composting facility on approximately 22 acres of land in Rancho Cucamonga. The property is ideally situated in an industrial area adjacent to Regional Water Recycling Plant No. 4 (RP-4), a wastewater recycling treatment plant owned and operated by Inland Empire Utilities Agency (IEUA). The proximity of the facility to RP-4 provides opportunities to improve staffing options and optimize energy usage.

The 445,275 square foot composting facility is a fully enclosed biosolids processing plant that processes approximately 150,000 tons of biosolids and 59,000 tons of wood and green waste into 250,000 cubic yards (98,000 tons) of high quality compost.



The facility utilizes aerated static pile composting technology to process a mixture of biosolids, greenwaste and woodwaste to generate Class 'A' Exceptional Quality compost for use in local agriculture and horticulture markets. All of the facility's emissions are treated with a biofilter to meet air quality requirements. In FY 2015/2016, a total of 203,725 tons of feedstock, equal to 98% of permitted capacity, was received by the facility.

As of June 30, 2016, the IERCF had sold 1.86 million cubic yards of high-quality compost to various customers in Southern California, Arizona, and Nevada and processed nearly 1.7 million tons of recycled materials.

For comparison, 1.86 million cubic yards can:

- ☀ Fill the Rose Bowl, in Pasadena, CA. to the top 4 times
- ☀ Load 37,200 semi-trucks
- ☀ Increase soil health and water retention for 64,800 football fields



Screening SoilPro with a portable trommel screen in the storage facility

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**The Authority's Operations – an Overview (continued):**

Throughout the last nine years of operation, the IERCF has operated continuously in full compliance with applicable permits, rules and regulations, and has maintained an excellent safety record.

Projects such as the IERCF Process Improvement Project and Baghouse and Dust Collection System Project were completed in FY2015/2016. The projects will improve safety and efficiencies in areas such as:

- Construction and commissioning of the Process Improvement Project to improve the conveyor and amendment hopper systems and material handling; to reduce loader traffic and equipment run times; and improve the facility's safety and efficiency;
- Evaluation, installation, and testing of an explosion control and suppression devices on the Baghouse and Dust Collection System with installation of a Baghouse Leak Detection System, for prevention of fire and dust explosions, improved system performance, and detection of any duct leakage;
- Evaluation and implementation of the maintenance planning and tracking system.



**Loader cab air filtration system (Brofil®)**



**Process Fan Corridor**

**Basic Financial Statements**

The basic financial statements present a summary of the Authority's financial position as of June 30, 2016. The Authority uses full accrual accounting, which recognizes transactions when they occur, regardless of when cash is exchanged.

The Statement of Revenues and Expenses for the fiscal year ended June 30, 2016 reflects the ninth year of operations for the IERCF. Total operating revenues were \$8,602,959, a 1% increase from prior year, while total operating expenses decreased by 7% as compared to the prior year for a total of \$9,350,468, which included \$2,541,456 of depreciation and amortization expense on capitalized assets.

## FINANCIAL HIGHLIGHTS

|   | FY2015/16           | FY2014/15           | Increase (Decrease)<br>from FY2014/15 |                |
|---|---------------------|---------------------|---------------------------------------|----------------|
| Current assets  | \$5,049,771         | \$4,096,970         | \$952,801                             | 23.26%         |
| Restricted assets                                     | 0                   | 170,811             | (170,811)                             | -100.00%       |
| Capital & Intangible assets                           | 86,731,986          | 88,478,021          | (1,746,035)                           | -1.97%         |
| <b>Total Assets</b>                                   | <b>91,781,757</b>   | <b>92,745,802</b>   | <b>(964,045)</b>                      | <b>-1.04%</b>  |
| Current liabilities                                   | 1,341,349           | 1,314,537           | 26,812                                | 2.04%          |
| Restricted liabilities                                | 0                   | 170,811             | (170,811)                             | -100.00%       |
| <b>Total Liabilities</b>                              | <b>1,341,349</b>    | <b>1,485,348</b>    | <b>(143,999)</b>                      | <b>-9.69%</b>  |
| Net investment in capital assets                      | 86,731,986          | 88,478,021          | (1,746,035)                           | -1.97%         |
| Unrestricted  | 3,708,422           | 2,782,433           | 925,989                               | 33.28%         |
| <b>Total net position</b>                             | <b>\$90,440,408</b> | <b>\$91,260,454</b> | <b>(\$820,046)</b>                    | <b>-0.90%</b>  |
| Operating revenues                                    | \$8,602,959         | \$8,499,598         | \$103,361                             | 1.22%          |
| Operating expenses                                    | (9,350,468)         | (10,018,020)        | \$667,552                             | -6.66%         |
| <b>Net operating income (loss)</b>                    | <b>(747,509)</b>    | <b>(1,518,422)</b>  | <b>770,913</b>                        | <b>-50.77%</b> |
| Other Non-operating revenues                          | 22,339              | 31,007              | (8,668)                               | -27.95%        |
| Other Non-operating expenses                          | (144,876)           | (241,333)           | 96,457                                | -39.97%        |
| <b>Net nonoperating revenues (expenses)</b>           | <b>(122,537)</b>    | <b>(210,326)</b>    | <b>87,789</b>                         | <b>-41.74%</b> |
| <b>Net income (loss) before capital contributions</b> | <b>(870,046)</b>    | <b>(1,728,748)</b>  | <b>858,702</b>                        | <b>-49.67%</b> |
| Contributed Capital                                   | 0                   | 0                   | 0                                     | 0.00%          |
| Capital Grant   | 50,000              | 0                   | 50,000                                | 0.00%          |
| <b>Total change in net position</b>                   | <b>(820,046)</b>    | <b>(1,728,748)</b>  | <b>908,702</b>                        | <b>-52.56%</b> |
| Total net position-beginning                          | 91,260,454          | 92,989,202          | (1,728,748)                           | -1.86%         |
| <b>Total net position- ending</b>                     | <b>\$90,440,408</b> | <b>\$91,260,454</b> | <b>(\$820,046)</b>                    | <b>-0.90%</b>  |

### Changes in Financial Conditions of the Authority

- The net increase of \$952,801 in current assets is comprised of two components: 1) an increase of \$840,384 in cash and investments due to a decrease in operating costs, and 2) an increase of \$114,071 in customer receivables.

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## **FINANCIAL HIGHLIGHTS (continued):**

### **Changes in Financial Conditions of the Authority (continued):**

- The decrease in Capital and Intangible assets of \$1,746,035 is primarily due to an increase of \$2,541,456 in accumulated depreciation and amortization.
- The increase of \$103,361 in operating revenues is primarily due to the increase of \$122,751 in Biosolids Recycling Tipping Fee revenue for 2,273 tons in FY 2015/16.
- The \$667,552 decrease in operating expenses is due to a decrease of \$918,980 in materials and supplies, and an increase of \$211,364 in depreciation expense.
- The \$50,000 grant was received from Metropolitan Water District of Southern California for the removal of 47,636 square feet of turn in support of the IERCA's commitment to water use efficiency.

As of June 30, 2016, contributed capital from SDLAC and IEUA was \$83,364,402 equally split between the partners. Additionally, the JPA partners contributed a total of \$15,116,229 for the original property, which resulted in a total contribution of \$98,480,631. In FY 2015/16, each JPA member was charged \$54 per ton tipping fee for bio-solids deliveries. The total net position at June 30, 2016 was \$90,440,408 compared to \$91,260,454 in FY 2014/15.

### **Capital & Intangible Assets**

At June 30, 2016, the Authority had total capital and intangible assets, net of depreciation and amortization, of \$86,731,986. Jobs in progress of \$2,078,169 include the cost of all design and construction work, and normal incidental expenses to maintain and improve the facility. Please refer to Note #3 to the basic financial statements for additional information regarding capital asset balances.

### **Investment Summary**

The Authority has followed a conservative approach in conducting its investment activities. By following the established Investment Policy, IEUA staff has successfully managed the investment portfolio to attain the Authority's objectives.

Investment interest for FY 2015/2016 totaled \$14,766, for an average yield of 0.9%. The Authority's short term investment fund balance for the fiscal year ended June 30, 2016 was \$3,640,482 comprised of \$1,622,537 in Sweep Investment Fund with Citizens Business Bank and \$2,017,940 in the Los Angeles County Pooled Surplus Investing Fund (LAC PSIF) and \$5 in the Local Agency Investment Agency Fund (LAIF). Please see Note #2 of the basic financial statements for additional information regarding investment balances.

### **Contacting the Authority's Financial Management**

This financial report is prepared to provide the Authority's members, our citizens, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues it receives. If you have questions about this report or need additional financial information, please contact the Inland Empire Utilities Agency, Finance and Accounting Department, P.O. Box 9020, Chino Hills, California, 91709.

**INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY  
BASIC FINANCIAL STATEMENTS  
OVERVIEW**

***Financial Statements***

The following Basic Financial Statements, along with the Supplementary Notes to the Basic Financial Statements, present a summary of the Authority's financial position at June 30, 2016, and the results of operations and the cash flows of its proprietary fund type for the fiscal year then ended.

The Basic Financial Statements consist of:

- 1) Statement of Net Position – the statement denotes the increase/(decrease) of net assets of the Authority.
- 2) Statement of Revenues, Expenses and Changes in Net Position – the statement shows all revenue and expense sources recorded for the period, and their effects on the net assets of the Authority.
- 3) Statement of Cash Flows – the statement reflects the Authority's financial activities and their effect on cash. It also denotes the cash position of the Authority at the end of the fiscal period.
- 4) Notes to the Basic Financial Statements.

**Inland Empire Regional Composting Authority**  
**Statement of Net Position**  
**June 30, 2016**  
**(With Comparative Total for June 30, 2015)**

|  | Totals              |                     |
|--|---------------------|---------------------|
|  | 2016                | 2015                |
| <b>ASSETS</b>                                      |                     |                     |
| Current assets                                     |                     |                     |
| Cash & Investments (Note 2)                        | \$4,204,213         | \$3,363,829         |
| Accounts receivable                                | 843,738             | 729,667             |
| Interest receivable                                | 1,820               | 3,474               |
| Total current assets                               | <u>5,049,771</u>    | <u>4,096,970</u>    |
| Non current assets                                 |                     |                     |
| Assets held with trustee (Note 2)                  | <u>0</u>            | <u>170,811</u>      |
| Total assets held with trustee                     | <u>0</u>            | <u>170,811</u>      |
| Capital assets (Note 3)                            |                     |                     |
| Land   | 4,285,096           | 4,285,096           |
| Jobs in progress                                   | 2,078,169           | 7,918,458           |
| Capital assets, net of accumulated depreciation    | 79,373,141          | 75,254,877          |
| Intangible assets, net of accumulated amortization | <u>995,580</u>      | <u>1,019,590</u>    |
| Total capital assets                               | <u>86,731,986</u>   | <u>88,478,021</u>   |
| Total noncurrent assets                            | <u>86,731,986</u>   | <u>88,648,832</u>   |
| Total assets                                       | <u>\$91,781,757</u> | <u>\$92,745,802</u> |

*The accompanying notes are an integral part of the basic financial statements*

**Inland Empire Regional Composting Authority**  
**Statement of Net Position**  
**June 30, 2016**  
**(With Comparative Total for June 30, 2015)**

|  | Totals                     |                            |
|--|----------------------------|----------------------------|
|  | 2016                       | 2015                       |
| <b>LIABILITIES</b>                               |                            |                            |
| Current liabilities                              |                            |                            |
| Accounts payable                                 | \$1,340,641                | \$1,313,863                |
| Accrued liabilities other                        | <u>708</u>                 | <u>675</u>                 |
| Total current liabilities                        | <u>1,341,349</u>           | <u>1,314,537</u>           |
| Liabilities payable from noncurrent assets       |                            |                            |
| Retention deposits and escrows                   | <u>0</u>                   | <u>170,811</u>             |
| Total liabilities payable from noncurrent assets | <u>0</u>                   | <u>170,811</u>             |
| Total liabilities                                | <u>1,341,349</u>           | <u>1,485,348</u>           |
| <br><b>NET POSITION</b>                          |                            |                            |
| Invested in capital assets                       | 86,731,986                 | 88,478,021                 |
| Unrestricted                                     | <u>3,708,422</u>           | <u>2,782,433</u>           |
| Total net position                               | <u><u>\$90,440,408</u></u> | <u><u>\$91,260,454</u></u> |

*The accompanying notes are an integral part of the basic financial statements*

**Inland Empire Regional Composting Authority**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2016**  
**(With Comparative Total for June 30, 2015)**

|  | Totals              |                     |
|--|---------------------|---------------------|
|  | 2016                | 2015                |
| <b>Operating revenues</b>                  |                     |                     |
| Biosolids Recycling Tipping Fees           | \$8,051,029         | \$7,923,062         |
| Sale of compost                            | 551,576             | 574,841             |
| Energy Rebates                             | 354                 | 1,695               |
|  | <u>8,602,959</u>    | <u>8,499,598</u>    |
| <b>Operating expenses</b>                  |                     |                     |
| Operations and maintenance                 | 5,925,389           | 6,636,614           |
| Administration and general                 | 883,623             | 1,051,315           |
| Depreciation and amortization              | 2,541,456           | 2,330,091           |
|  | <u>9,350,468</u>    | <u>10,018,020</u>   |
| Total operating revenues                   | <u>8,602,959</u>    | <u>8,499,598</u>    |
| Total operating expenses                   | <u>9,350,468</u>    | <u>10,018,020</u>   |
| Operating income (loss)                    | <u>(747,509)</u>    | <u>(1,518,422)</u>  |
| <b>Nonoperating revenues (expenses)</b>    |                     |                     |
| Interest income                            | 14,766              | 15,960              |
| Other nonoperating revenues                | 7,573               | 15,047              |
| Other nonoperating expenses                | (144,876)           | (241,333)           |
|  | <u>(122,537)</u>    | <u>(210,326)</u>    |
| Net nonoperating revenues (expenses)       | <u>(122,537)</u>    | <u>(210,326)</u>    |
| Income (loss) before capital contributions | <u>(870,046)</u>    | <u>(1,728,748)</u>  |
| Capital contributions:                     |                     |                     |
| Capital Grant                              | 50,000              | 0                   |
|  | <u>50,000</u>       | <u>0</u>            |
| Change in net position                     | (820,046)           | (1,728,748)         |
| Total net position - beginning             | <u>91,260,454</u>   | <u>92,989,202</u>   |
| Total net position - ending                | <u>\$90,440,408</u> | <u>\$91,260,454</u> |

*The accompanying notes are an integral part of the basic financial statements*



**Inland Empire Regional Composting Authority**  
**Statement of Cash Flows**  
**Year Ended June 30, 2016**  
**(With Comparative Totals for June 30, 2015)**

|  | Totals             |                    |
|--|--------------------|--------------------|
|  | 2016               | 2015               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                          |                    |                    |
| Cash received from customers   | 8,488,888          | 8,537,486          |
| Cash payments to suppliers for goods and services                    | (3,403,447)        | (4,923,995)        |
| Cash payments for contract labor                                     | (3,378,753)        | (3,289,141)        |
|  | <u>1,706,687</u>   | <u>324,350</u>     |
| Net cash provided (used) by operating activities                     |                    |                    |
| <b>Cash flows from noncapital financing activities:</b>              |                    |                    |
| Other Receivables  |                    |                    |
| Contract reimbursement from other (Other Non Op Rev)                 | 7,573              | 15,047             |
| Cash paid to others (Other Non Op Exp)                               | (132,368)          | (4,167)            |
|  | <u>(124,795)</u>   | <u>10,880</u>      |
| Net cash provided by (used for) noncapital financing activities      |                    |                    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>      |                    |                    |
| Acquisition and construction of capital assets                       | (807,929)          | (3,962,378)        |
| Proceeds from sale of assets   | 0                  | 424,000            |
| Capital grants   | 50,000             | 0                  |
| Changes in contractor deposits/retentions                            | (170,811)          | 83,593             |
|  | <u>(928,740)</u>   | <u>(3,454,785)</u> |
| Net cash provided (used) by capital and related financing activities |                    |                    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                          |                    |                    |
| Interest on investments  | 16,420             | 15,356             |
|  | <u>16,420</u>      | <u>15,356</u>      |
| Net cash provided (used) by investing activities                     |                    |                    |
| Net increase (decrease) in cash and cash equivalents                 | 669,573            | (3,104,199)        |
| Cash and cash equivalents - beginning                                | 3,534,640          | 6,638,839          |
| Cash and cash equivalents - ending                                   | <u>\$4,204,213</u> | <u>\$3,534,640</u> |

*The accompanying notes are an integral part of the basic financial statements*

**Inland Empire Regional Composting Authority**  
**Statement of Cash Flows**  
**Year Ended June 30, 2016**  
**(With Comparative Totals for June 30, 2015)**

|  | Totals             |                    |
|--|--------------------|--------------------|
|  | 2016               | 2015               |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FOR (USED BY) OPERATING ACTIVITIES</b>    |                    |                    |
| Operating income (loss)  | (\$747,509)        | (\$1,518,422)      |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities |                    |                    |
| Depreciation   | 2,541,456          | 2,330,090          |
| (Increase) decrease in operating assets  |                    |                    |
| Accounts receivable  | (114,071)          | 37,888             |
| Increase (decrease) in operating liabilities   |                    |                    |
| Accounts payable   | 26,778             | (524,641)          |
| Other accrued liabilities  | 33                 | (565)              |
| Net cash provided (used) by operating activities   | <u>\$1,706,687</u> | <u>\$324,350</u>   |
| <b>RECONCILIATION OF CASH &amp; CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION</b>                |                    |                    |
| Cash & cash equivalents at end of year   | <u>4,204,213</u>   | <u>3,534,640</u>   |
| Total cash and cash equivalents  | <u>\$4,204,213</u> | <u>\$3,534,640</u> |
| Cash   | \$563,731          | \$549,920          |
| Short-term investments   | <u>3,640,482</u>   | <u>2,813,909</u>   |
| Restricted assets  | <u>0</u>           | <u>170,811</u>     |
| Total cash, short-term investments and restricted cash   | <u>\$4,204,213</u> | <u>\$3,534,640</u> |
| <b>NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |                    |                    |
| Disposal of Assets   | <u>\$12,508</u>    | <u>\$237,165</u>   |
| Total non-cash capital and related financing activities  | <u>\$12,508</u>    | <u>\$237,165</u>   |

*The accompanying notes are an integral part of the basic financial statements*

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**INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY**

***Index of Notes to the Basic Financial Statements***

***JUNE 30, 2016***

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## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

### **JUNE 30, 2016**

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#### **(1) Reporting Entity and Summary of Significant Accounting Policies:**

##### **Description of the Reporting Entity**

The Inland Empire Regional Composting Authority, a Joint Powers Authority (JPA), was formed in February of 2002. The JPA consists of two partners, Inland Empire Utilities Agency (IEUA), a municipal water district in California, and Sanitation District No. 2 of Los Angeles County (SDLAC), a special district organized and operating pursuant to the County Sanitation District Act, Health and Safety Code Section 4700, et seq. All capital contribution investments related to the JPA are shared equally by both partners. Beginning FY 2009/2010 the Authority implemented a cost of service rate (tipping fees) to support the operational costs. Tipping fees paid by each JPA partner are based on the tonnage of biosolids shipped to the facility for recycling. As defined by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of the Authority as the primary government. The Authority has no legally separate component units that require blended or discrete presentation.

Subject to the limitations imposed by the Constitution of California, and pursuant to its charter, all powers of the Authority not defined are vested in a six-member Board of Directors. For the purposes of transacting business of the Board, a quorum shall consist of four of the six members of the Board, provided that there are a minimum of two Board members from each partner. The principal office of the Authority is established by resolution of the Board. The Authority has appointed a Secretary, a Treasurer and a Project Manager. The appointed officers come from the membership of the Authority.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as they relate to governmental units. The Authority applies all relevant GASB pronouncements.

##### **Fund Accounting**

The accounts of the Authority are organized on the basis of funds. All transactions are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses, as appropriate, the Authority's accounts for its activities in an "Enterprise Fund". An Enterprise Fund is grouped and presented in the financial statements as a "Proprietary Fund Type".

##### **Proprietary Fund Types**

A Proprietary Fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the statement of net position. Their reported fund equity (net position) is segregated into capital assets (net of related debt) and restricted and unrestricted net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

## **(1) Reporting Entity and Summary of Significant Accounting Policies (continued):**

### **Proprietary Fund Types (continued):**

#### **Enterprise Funds**

An Enterprise Fund is used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

#### **Basis of Accounting**

Basis of accounting refers to the timing when revenues and expenses are recognized in the accounts, and reported in the financial statements, regardless of the measurement focus applied. The Authority prepares its financial statements on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred regardless of when the related cash flows take place.

#### **Use of Estimates**

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Use of Restricted and Unrestricted Funds**

Restricted funds represent deposits held in short-term investments with Trustee/Fiscal Agents. As of June 30, 2016, there are no deposits under the restricted fund category.

#### **Operating and Non-operating Revenues and Expenses**

Operating revenues relate to revenue transactions generated as a direct result of the core business in which the Authority is engaged. These transactions can be repetitive in nature within the normal business cycle. Examples include biosolids recycling, compost delivery services, compost sales and the sale of renewable energy credits. Non-operating revenues are transactions incurred infrequently, during the course of the Authority's business. These types of transaction are generally not directly related to the general business of the Authority, such as 1) interest income; 2) gain on sales of assets; and 3) miscellaneous other revenues.

The Authority classifies expense types based upon the goods and/or services directly related to the operations of the Authority. Typically operating expenses include such items as operations, maintenance, and administrative costs. In contrast, non-operating expenses are not directly related to the Authority's core operations, such as interest expense, bad debt, and the cost of financial services.

**(1) Reporting Entity and Summary of Significant Accounting Policies (continued):**

**Budgetary Policy and Control**

The Authority's Board approves each year's budget submitted by the Treasurer prior to the beginning of the new fiscal year. The Authority is not required to present budget comparisons; therefore budgetary data is not presented in the accompanying financial statements.

The Authority maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the Board. All appropriations which are not obligated, encumbered, or expended at the end of the fiscal year lapse at year-end, except for multi-year capital appropriations.

**Cash and Investments**

Investments in short-term highly liquid debt instruments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Investments are carried at fair value.

For financial presentation purposes, cash and cash equivalents are shown within cash and short-term investments.

**Receivables and Payables**

All receivables are shown net of an allowance for uncollectible accounts. The Authority extends credit to customers in the normal course of operations. Management has evaluated the accounts and approved an allowance for uncollectible accounts of \$4,000 for FY2015/2016. The ending balance of the allowance for uncollectible accounts are \$30,202 for the fiscal year ended of June 30, 2016. When an account is determined to be uncollectible, it is written off against the allowance following Board approval.

**Capital Assets**

Property, plant and equipment are stated at cost. The cost of a capital investment includes purchase, rehabilitation or construction costs, Authority labor for engineering, construction management and administrative activities, as well as ancillary expenses necessary to make productive use of the assets. Current capitalization thresholds are reflected in the following table:

| <b>Type of Expenditure</b>   | <b>Total Cost</b> | <b>Estimated Life</b> | <b>Increases Estimated Life</b> | <b>Enhances Performance</b> |
|------------------------------|-------------------|-----------------------|---------------------------------|-----------------------------|
| Office Equipment             | ≥ \$5,000         | > 1 Year              | N/A                             | N/A                         |
| Computer Equipment           | ≥ \$1,000         | > 1 Year              | N/A                             | N/A                         |
| Other Equipment              | ≥ \$5,000         | > 1 Year              | N/A                             | N/A                         |
| Single Year Capital Projects | ≥ \$5,000         | ≥ 3 Years             | N/A                             | N/A                         |
| Multi Year Capital Projects  | ≥ \$15,000        | ≥ 3 Years             | N/A                             | N/A                         |




The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized.

## **(1) Reporting Entity and Summary of Significant Accounting Policies (continued):**

### **Capital Assets (continued):**

Improvements are capitalized and depreciated, as applicable, over the remaining useful life of the related capital assets. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of capital assets has been provided on a straight-line basis. One-half year depreciation is recorded in the year of acquisition and disposal.

|                             |  |               |
|-----------------------------|--|---------------|
| Estimated useful lives are: | Ω Furniture, machinery and equipment   | 5 - 10 years  |
|                             |  Improvements         | 15 years      |
|                             |  Buildings and plants | 5 - 50 years  |
|                             |  Intangible Assets    | 30 - 50 years |

### **Comparative Data**

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the authority's prior year financial statements, from which this financial data was derived.

### **Risk Management**

The Authority is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. The Authority secures liability, boiler and machinery insurance to protect itself from any risk exposure, relative to its business operations. Since the Authority has no employees and the operations and management of its facility is contracted out to IEUA, worker's compensation insurance is carried by IEUA.

- ⊕ General and auto liability, public officials and employees' error and omissions: The Authority retains the risk of loss for general liability, and, errors and omissions claims of up to \$1,000,000 per person per occurrence; with an aggregate amount of \$2,000,000.

In addition to the above, the Authority has the following insurance coverage:

- ⊕ Employee dishonesty coverage up to \$50,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's, and computer fraud; with a deductible of \$1,000 per occurrence.
- ⊕ Property damage has an \$89,775,000 per occurrence coverage limit, subject to a \$100,000 deductible per occurrence. All other claims categories provide coverage up to \$800,000,000 on an annual aggregate basis.

Settled claims from the risks discussed herein have not exceeded commercial insurance coverage in any of the last three fiscal years ending June 30, 2016, 2015, and 2014. Additionally, there have been no reductions in insurance coverage.

## **(2) Cash and Investments**

### **Cash Deposits**

The Authority's cash accounts are maintained with financial institutions that provide deposit protection for the account balance through participation in the Federal Deposit Insurance Corporation (FDIC). The California Government Code (CGC§53652 and 53667) requires banks and savings and loan associations to secure local agency deposits by placing appropriate and adequate securities as collateral with an approved trustee.

For deposits in commercial banks, the California Government Code allows the Authority to waive the proceeding requirement for that portion of each deposit insured pursuant to the FDIC regulations; with the remainder of the deposit being secured by collateral (U. S. Government Securities) with a market value of at least ten percent (10%) greater than that remaining amount. The Authority has chosen to enter into these agreements.

For savings and loan associations and/or savings banks, similar waiver agreements (maximum \$250,000) may be implemented provided the remainder of the deposit is secured by collateral; typically promissory notes secured by first mortgages or deeds of trust (CGC§53651), with a market value at least fifty percent (50%) greater than the remaining amount.

In addition, the Authority investment policy requires financial institutions to meet other minimum criteria. Financial institutions must: (a) have been in business for at least three years; have total assets in excess of ten (\$10) billion dollars; and, a core capital/asset ratio of five percent (5%) or better; or, (b) have total assets in excess of five hundred million dollars (\$500,000,000); and a core capital/asset ratio of six percent (6%) or better. State statutes, and the Authority's investment policy, authorize the Authority to maintain cash deposits in demand accounts, savings accounts, and in certificates of deposit.

The custodial credit for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than as required for the California Government Code for deposits.

The investment in the Repurchase Agreement is uninsured with the collateral for the repurchase agreement held in the name of Citizens Business Bank but not in the name of the Authority.

The bank balance reflects the amount credited by a financial institution to the Authority's account as opposed to the Authority's own ledger balance for the account. The carrying value reflects the ledger balance, which includes checks written by the Authority that have not cleared the bank as of June 30, 2016.

### **Investments**

In FY 2015/2016, the Authority invested in the Los Angeles County Pooled Surplus Investment Fund (LAC PSIF), which is also managed by Los Angeles County Investment Officer. The Authority invests in the Local Agency Investment Fund (LAIF), which is an investment pool managed by the Treasurer of the State of California. The Authority's investments are reported at amortized cost in the balance sheet. The market value of the Authority's investments constitutes one hundred percent (100%) of investments, and equals the net realizable value of the Authority's share of LAIF and LAC PSIF. LAIF and LAC PSIF are authorized by California statutes to enter into investments on behalf of municipalities within California.

State statutes and the Authority's investment policy also allows the Authority to invest (short-term and long-term) in U.S. Treasury Obligations, U.S. agency issues and instrumentalities, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Records, negotiable certificate of deposit, LAIF, and medium term notes.



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

### **Cash and Investments**

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

|                                   | <b><u>2016</u></b>               | <b><u>2015</u></b>               |
|-----------------------------------|----------------------------------|----------------------------------|
| Statement of Net Position:        |                                  |                                  |
| Cash & Investments                | \$4,204,213                      | \$3,363,829                      |
| Assets held with Trustee          | <u>0</u>                         | <u>170,811</u>                   |
| <b>Total Cash and Investments</b> | <b><u><u>\$4,204,213</u></u></b> | <b><u><u>\$3,534,640</u></u></b> |

### **Investments Authorized by the California Governmental Code and the Authority's Investment Policy**

The table below identifies the investment types that are authorized for the Authority by the Authority's investment policy. The table also identifies certain provisions of the Authority's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

| <b><u>Authorized<br/>Investment Type</u></b>  | <b><u>Maximum<br/>Maturity</u></b> | <b><u>Maximum<br/>Percentage<br/>of Portfolio</u></b> | <b><u>Maximum<br/>Investment<br/>One Issuer</u></b> |
|---|------------------------------------|---|---|
| U.S. Treasury Obligations                     | 5 years                            | None  | None  |
| U.S. Agency Securities                        | 5 years                            | None  | None  |
| State Treasury Obligations                    | 5 years                            | 10%   | None  |
| Local Agency Obligations                      | 5 years                            | None  | None  |
| Commercial Paper                              | 270 days                           | 20%   | 10%   |
| Negotiable/Placement Certificates of Deposits | 5 years                            | 30%   | None  |
| Repurchase Agreements                         | 90 days                            | 40%   | None  |
| Medium-Term Notes                             | 5 years                            | 10%   | None  |
| Money Market Funds                            | N/A                                | 20%   | 10%   |
| Local Agency Investment Fund                  | N/A                                | None  | None  |
| Local Agency Investment Pools                 | N/A                                | \$20M/Acct  | None  |
| Bank Deposits                                 | N/A                                | None  | None  |

### **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 the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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

**Disclosures Relating to Interest Rate Risk (continued):**

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investment by maturity:

| <u>Investment Type</u>                               | <u>Remaining Maturity<br/>(In Months)</u> |                     |
|--|---|---------------------|
|  | <u>Fair Value</u>                         | <u>12 or Less</u>   |
| Los Angeles County Investment Pooled Investment Fund | \$ 2,017,940                              | \$ 2,017,940        |
| Sweep Account  | 1,622,537                                 | 1,622,537           |
| Local Agency Investment Fund                         | 5   | 5                   |
| <b>Total</b>   | <b>\$ 3,640,482</b>                       | <b>\$ 3,640,482</b> |

**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 the Authority's investment policy, and the actual Standard and Poor's rating as of fiscal year ended June 30, 2016 for each investment type:

| <u>Investment Type</u>                               | <u>Value</u>        | <u>Minimum<br/>Legal Rating</u> | <u>Unrated</u>      |
|--|---------------------|---------------------------------|---------------------|
| Los Angeles County Investment Pooled Investment Fund | \$ 2,017,940        | N/A                             | \$ 2,017,940        |
| Sweep Account  | 1,622,537           | N/A                             | 1,622,537           |
| Local Agency Investment Fund                         | 5                   | N/A                             | 5                   |
| <b>Total</b>   | <b>\$ 3,640,482</b> |                                 | <b>\$ 3,640,482</b> |

**Fair Value Measurement (GASB 72)**

The information below shows the Authority's investments fair value measurements (market approach) as of June 30, 2016. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date under current market conditions.

| <u>Investments by Fair Value Level</u>               | <u>June 30, 2016</u> | <u>Level 1 <sup>(A)</sup></u> | <u>Level 2 <sup>(B)</sup></u> | <u>Level 3 <sup>(C)</sup></u> |
|--|----------------------|-------------------------------|-------------------------------|-------------------------------|
| Los Angeles County Investment Pooled Investment Fund | \$ 2,017,940         | \$ 2,017,940                  |                               |                               |
| Local Agency Investment Fund                         | 5                    |                               | \$ 5                          |                               |
| <b>Total</b>   | <b>\$ 2,017,945</b>  | <b>\$ 2,017,940</b>           | <b>\$ 5</b>                   | <b>\$ -</b>                   |

<sup>(A)</sup> Level 1 - Quoted prices in active markets for identical assets

<sup>(B)</sup> Level 2 - Quoted prices in active markets for significant other observable inputs

<sup>(C)</sup> Level 3 - Quoted prices in active markets for significant unobservable inputs

### (3) Changes in Capital Assets

The following is a summary of capital assets, jobs in progress and intangible assets at June 30, 2016:

| Capital assets                                     | Balance at<br>6/30/2015 | Additions          | Transfers,<br>Sales &<br>Retirements | Balance at<br>6/30/2016 |
|--|-------------------------|--------------------|--------------------------------------|-------------------------|
| Capital assets, not being depreciated:             |                         |                    |                                      |                         |
| Land   | \$4,285,096             | \$0                | \$0                                  | \$4,285,096             |
| Jobs in progress                                   | 7,918,458               | 807,929            | (6,648,218)                          | 2,078,169               |
| <b>Total capital assets, not being depreciated</b> | <b>\$12,203,554</b>     | <b>\$807,929</b>   | <b>(\$6,648,218)</b>                 | <b>\$6,363,265</b>      |
| Capital assets, being depreciated:                 |                         |                    |                                      |                         |
| Facility   | 10,831,133              | 0                  | 0                                    | 10,831,133              |
| Structures & improvements                          | 70,742,192              | 0                  | 0                                    | 70,742,192              |
| Operations equipment                               | 8,992,870               | 6,648,218          | (19,750)                             | 15,621,338              |
| <b>Total capital assets, being depreciated</b>     | <b>\$90,566,195</b>     | <b>\$6,648,218</b> | <b>(\$19,750)</b>                    | <b>\$97,194,663</b>     |
| <b>Less accumulated depreciation for:</b>          |                         |                    |                                      |                         |
| Facility   | (1,624,670)             | (216,623)          | 0                                    | (1,841,293)             |
| Structures & improvements                          | (10,396,541)            | (1,432,106)        | 0                                    | (11,828,648)            |
| Operations equipment                               | (3,290,107)             | (868,717)          | 7,242                                | (4,151,582)             |
| Total accumulated depreciation                     | (15,311,318)            | (2,517,446)        | \$7,242                              | (17,821,523)            |
| Total capital assets, being depreciated, net       | \$75,254,877            | \$4,130,772        | (\$12,508)                           | \$79,373,140            |
| Intangible assets, being amortized:                |                         |                    |                                      |                         |
| Capacity rights                                    | 1,143,472               | 0                  | 0                                    | 1,143,472               |
| <b>Total intangible assets, being amortized</b>    | <b>\$1,143,472</b>      | <b>\$0</b>         | <b>\$0</b>                           | <b>\$1,143,472</b>      |
| <b>Less accumulated amortization for:</b>          |                         |                    |                                      |                         |
| Capacity rights                                    | (123,882)               | (24,010)           | 0                                    | (147,891)               |
| Total accumulated amortization                     | (123,882)               | (24,010)           | \$0                                  | (147,891)               |
| Total capital assets, being amortized, net         | \$1,019,590             | (\$24,010)         | \$0                                  | \$995,580               |
| <b>Total capital assets, net</b>                   | <b>\$88,478,021</b>     | <b>\$4,914,691</b> | <b>(\$6,660,726)</b>                 | <b>\$86,731,986</b>     |

In FY 2015/2016, IERCA acquired \$6,648,218 in assets; depreciation and amortization increased by \$2,541,456. The ending balance of accumulated depreciation and amortization for all capital assets has been adjusted to the Statement of Net Position for 2016 (rounding difference).

**(3) Changes in Capital Assets (continued):**

**Jobs in Progress**

At Fiscal Year ended June 30, 2016, the Authority had seven modification and improvement projects and sub-projects open.

|  |           |                  |
|--|-----------|------------------|
| Material Handling Equipment Replacement  | \$        | 369,859          |
| Maintenance Tools and Equipment          |           | 737,395          |
| Equipment Rehabilitation and Replacement |           | 437,291          |
| Baghouse Evaluation                      |           | 40,708           |
| Fleet Vehicles                           |           | 186,383          |
| Landscape Replacement                    |           | 49,951           |
| Facility Repairs & Improvements          |           | 11,821           |
| Wifi Hardware Rplacement                 |           | 18,588           |
| Receiving Pit and Drainage               |           | 152,615          |
| Control Net Replacement Phase II         |           | 51,205           |
| Workstation Replacement                  |           | 22,353           |
| <b>Total Jobs in Progress</b>            | <b>\$</b> | <b>2,078,169</b> |

**(4) Subsequent Events**

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through February 6, 2017, the date financial statements were available to be issued, and found no subsequent event.



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