

**SANTA CLARA VALLEY
HABITAT AGENCY**

FINANCIAL STATEMENTS
June 30, 2017

SANTA CLARA VALLEY HABITAT AGENCY
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June 30, 2017

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Santa Clara Valley Habitat Agency
Morgan Hill, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Santa Clara Valley Habitat Agency, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Santa Clara Valley Habitat Agency, as of June 30, 2017, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3 through 11, and the budgetary information on page 26 and page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2018, on our consideration of the Santa Clara Valley Habitat Agency'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 Agency's internal control over financial reporting and compliance.

Moss, Remy & Haulgheim LLP

Santa Maria, California
February 14, 2018

SANTA CLARA VALLEY HABITAT AGENCY
Management's Discussion and Analysis
Year Ended June 30, 2017

This section of Santa Clara Valley Habitat Agency (the "Agency") annual financial report presents a discussion and analysis of the Agency's financial performance for the year ended June 30, 2017. The Agency's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

At June 30, 2017, the Agency's net position increased to \$10,926,754 from \$10,439,772 in 2016.

Changes to net position resulted from the changes in the following items shown in the statement of activities.

- Program revenues decreased by \$2,391,578 while operating expenses increased by \$1,352,837.
- General revenues increased by \$66,287 which was the result of higher return on investment because of higher cash and investment balances.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad overview of the Agency's activities and comprise the Statement of Net Position and the Statement of Activities. The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner like a private-sector business.

The *statement of net position* provides information about the financial position of the Agency as a whole, including all the Agency's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the two reported as net position and reported on the full accrual basis, like that used by corporations. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* provides information about all the Agency's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the Agency's programs. The statement of activities explains in detail the change in net position for the year.

All the Agency's activities are grouped into governmental-activities. These services are supported by the Agency's general revenues and by specific program revenues such as developer fees.

SANTA CLARA VALLEY HABITAT AGENCY
Management's Discussion and Analysis
Year Ended June 30, 2017

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objects. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the Agency are classified as governmental funds.

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

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governments near term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund and governmental activities. The government fund financial statements provide detailed information about each of the Agency's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them as one total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedule presents the detail of these non-major funds. Major funds present the major activities of the Agency for the year and may change from year to year because of changes in the pattern of the Agency's activities.

SANTA CLARA VALLEY HABITAT AGENCY
Management's Discussion and Analysis
Year Ended June 30, 2017

For the fiscal year ended June 30, 2017, the Agency's major funds are as follows:

Governmental funds:

- General Fund
- AB 1600 Special Revenue Fund
- Endowment Permanent Fund

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The required supplementary information is presented concerning the Agency's budgetary comparison schedules on general fund, special revenue fund and endowment permanent fund. The Agency adopts an annual appropriated budget for each major fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with the budget.

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$10,926,754 at the close of the fiscal year.

Net Position

	<u>Governmental Activities</u>		
	<u>2017</u>	<u>2016</u>	Increase (Decrease)
Assets:			
Current assets	\$ <u>11,153,428</u>	\$ <u>10,541,232</u>	\$ <u>612,196</u>
Total assets	<u>11,153,428</u>	<u>10,541,232</u>	<u>612,196</u>
Liabilities:			
Current liabilities	<u>226,674</u>	<u>101,460</u>	<u>125,214</u>
Total liabilities	<u>226,674</u>	<u>101,460</u>	<u>125,214</u>
Net position:			
Restricted	8,911,687	3,616,502	5,295,185
Unrestricted	<u>2,015,067</u>	<u>6,823,270</u>	<u>(4,808,203)</u>
Total net position	<u>\$10,926,754</u>	<u>\$10,439,772</u>	\$ <u>486,982</u>

SANTA CLARA VALLEY HABITAT AGENCY
Management's Discussion and Analysis
Year Ended June 30, 2017

This schedule is prepared from the Agency's Statement of net position, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Currently, the Agency has no non-current assets or liabilities.

Net position at June 30, 2017, increased to \$10,926,754 from \$10,439,772 in 2016. Working capital (current assets less current liabilities) increased in the same amount as the increase was primarily due to revenue recognition.

Analysis of Changes in Net Position

	<u>Change in Net Position</u>		
	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2017</u>	<u>2016</u>	
Revenues			
Program revenues:			
Contributions	\$ 3,733,608	\$ 6,111,349	(2,377,741)
Charges for services	<u>90,158</u>	<u>103,995</u>	<u>(13,837)</u>
Total program revenue	3,823,766	6,215,344	(2,391,578)
General revenues:			
Interest, rent and miscellaneous	<u>125,262</u>	<u>58,975</u>	<u>66,287</u>
Total revenues	3,949,028	6,274,319	(2,325,291)
Operating expenses	<u>3,427,388</u>	<u>2,074,551</u>	<u>1,352,837</u>
Change in net position	521,640	4,199,768	(3,678,128)
Net position, beginning	10,439,772	6,240,004	4,199,768
Prior period adjustment	<u>(34,658)</u>	<u> </u>	<u>(34,658)</u>
Net position, beginning restated	<u>10,405,114</u>	<u>6,240,004</u>	<u>4,165,110</u>
Net position, ending	10,926,754	\$10,439,772	486,982

In fiscal year 2017, program revenues decreased by \$2,377,741 due to Habitat plan fees being less than the previous year.

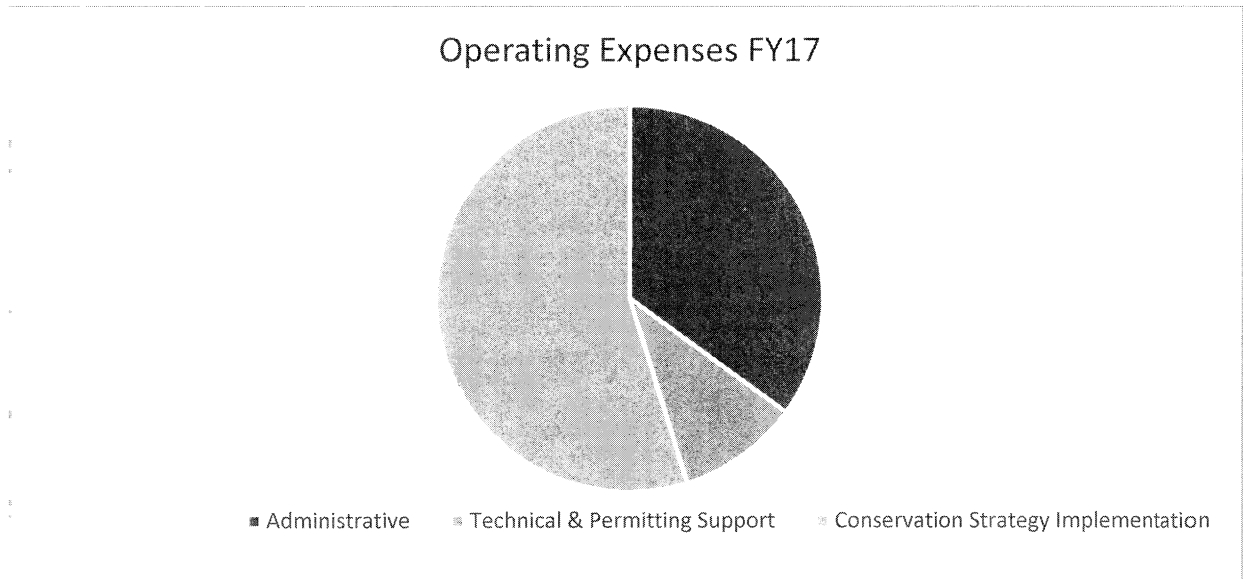
SANTA CLARA VALLEY HABITAT AGENCY
Management's Discussion and Analysis
Year Ended June 30, 2017

Operating Expenses

	<u>2017</u>	<u>2016</u>	Increase (Decrease)
Administrative	\$1,098,816	\$ 944,221	\$ 154,595
Technical & Permitting Support	309,858	370,623	(60,765)
Conservation Strategy Implementation	<u>2,018,714</u>	<u>759,707</u>	<u>1,259,007</u>
Total	<u>\$3,427,388</u>	<u>\$2,074,551</u>	<u>\$ 1,352,837</u>

Administrative expenses increased by \$154,595 as the Agency hired a Principal Planner in August 2016. This directly affected Technical & Permitting Support costs which incurred \$60,765 less than the year prior. In addition, part-time Accounting Assistant was hired in November 2016 to assist with payroll reporting and accounts payable. Costs for Conservation Strategy Implementation rose significantly and reflect the ongoing growth of Habitat Conservation Strategy activities which are collectively set forth to achieve the biological goals and objective of the Plan.

The following is a graphic illustration of operating expenses for the year ended June 30, 2017:



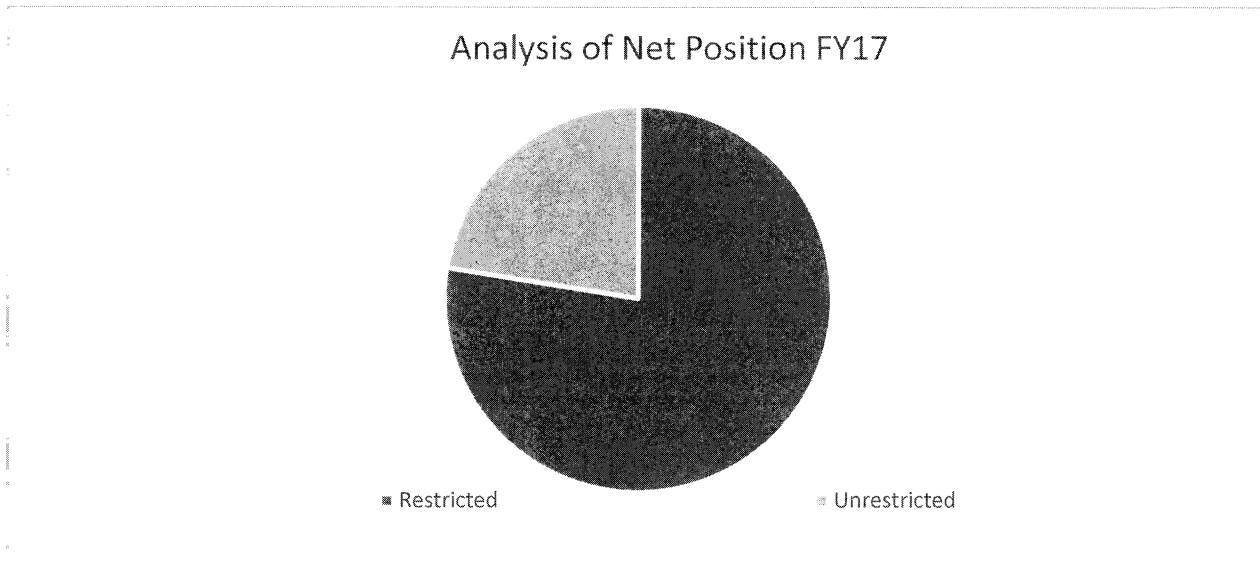
SANTA CLARA VALLEY HABITAT AGENCY
Management's Discussion and Analysis
Year Ended June 30, 2017

Analysis of Net Position

<u>Net Position</u>	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Restricted	\$ 8,911,687	\$ 3,616,502	\$ 5,295,185
Unrestricted	<u>2,015,067</u>	<u>6,823,270</u>	<u>(4,808,203)</u>
Total	<u>\$10,926,754</u>	<u>\$10,439,772</u>	<u>\$ 486,982</u>

The change in net position of \$486,982 was primarily due to an increase in cash in spite of a decrease in fees receivable.

The following is a graphic illustration of net position as of June 30, 2017:



SANTA CLARA VALLEY HABITAT AGENCY
Management's Discussion and Analysis
Year Ended June 30, 2017

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

As the Agency continues to develop programs to implement the Habitat Plan and obtains grant funding, the ongoing creation of monitoring programs to control costs is critical as is the monitoring of the impact of land acquisitions on cash flow requirements. In addition, long term solutions for the Agency's endowment and program maintenance are currently being implemented through strategic agreements which contribute to fulfillment of the Habitat Plan.

In considering the Agency's Budget for fiscal year 2017-2018, the Governing Board and management used the following criteria. The key assumptions in our revenue forecast were:

- Operating revenue was carefully considered to be at least as much as / no less than prior year actuals.
- Other revenue gradually increases as grants are awarded for research and land acquisition opportunities.

The adopted budget for fiscal year 2017-2018 is \$4,261,143, summarized as follows:

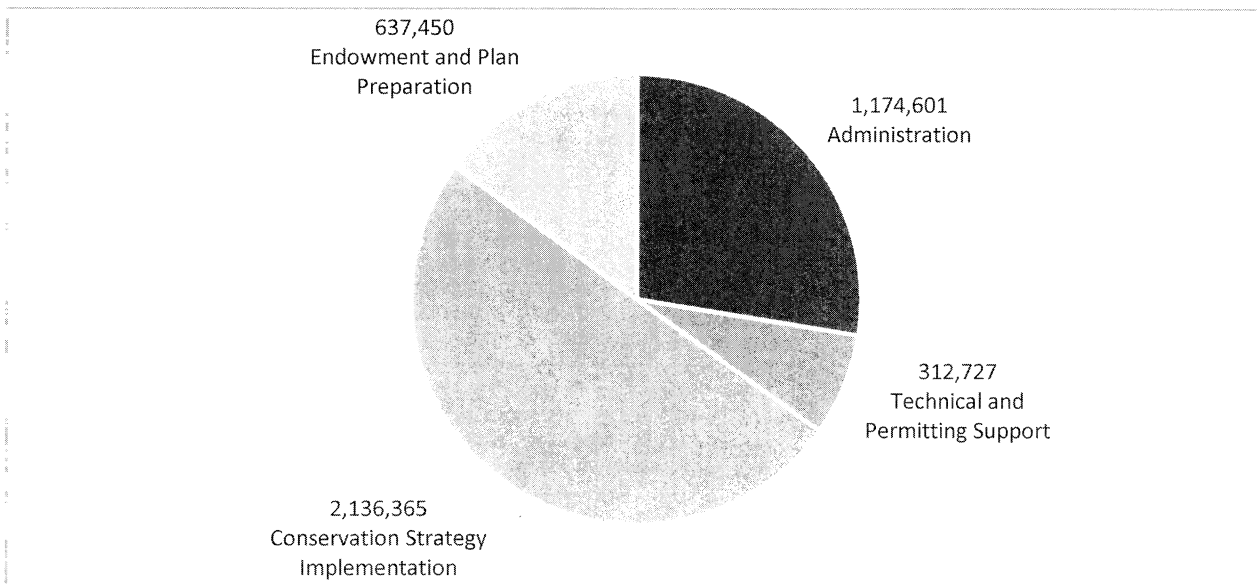
	<u>FY2017-18</u>	<u>FY2016-17</u>	<u>Change</u>
Administration:			
Executive Compensation	\$255,218	\$241,783	13,435
Legal Services	193,400	193,400	0
Financial Services	55,000	85,000	(30,000)
Clerk of the Board Services	16,500	16,500	0
Contract Administrative Services	-	10,000	(10,000)
Office Staffing	522,318	463,779	58,539
Grant Management	25,000	35,000	(10,000)
Other	<u>107,165</u>	<u>95,732</u>	<u>11,433</u>
Total administration	1,174,601	1,141,194	33,407
Technical & Permitting Support:			
Technical Assistance	57,000	100,000	(43,000)
Waters Permitting	171,000	171,000	0
Participating Special Entities	5,000	5,000	0
Compliance Tracking	<u>79,727</u>	<u>106,000</u>	<u>(26,273)</u>
Total tech & permitting support	312,727	382,000	(69,273)
Conservation Strategy Implementation:			
Wetlands Restoration & Creation	1,231,800	800,000	431,800
Land Enrollment	108,112	198,112	(90,000)
Research, Monitoring & Adaptive Mgmt.	335,689	404,889	(69,200)
Management Planning	30,000	85,000	(55,000)
Land Management Activities	202,312	327,500	(125,188)

SANTA CLARA VALLEY HABITAT AGENCY
Management's Discussion and Analysis
Year Ended June 30, 2017

Western Burrowing Owl	228,452	328,682	(100,230)
Total conservation strategy implementation	2,136,365	2,144,183	(7,818)
Endowment & Plan Preparation			
Endowment reserve	569,250	1,146,780	
Plan preparation reimbursement	68,200	137,392	
Total endowment & plan preparation	637,450	1,284,172	
Total budget	4,261,143	4,951,549	

- Administration – shows a small increase of approximately \$33,407, which is due to a standard increase in all salaries, as well as other administrative expenses (insurance, IS support, agency memberships, etc.). Financial services, contract administrative services and grant management have decreased by a total of \$50,000.
- Technical & permitting support – has decreased by a sum of \$69,273 due to technical assistance and compliance tracking duties being performed by staff.
- Conservation strategy implementation – has decreased by a sum of \$7,818 due to level of field work completed through agreements expected to be minimally less.
- Endowment & plan preparation – these figures are based on the estimation of Habitat Plan Fees to be received.

The following is a graphic illustration of appropriations for fiscal year 2017-2018:



SANTA CLARA VALLEY HABITAT AGENCY
Management's Discussion and Analysis
Year Ended June 30, 2017

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Santa Clara Valley Habitat Agency – 535 Alkire Avenue, Suite 100, Morgan Hill, CA 95037.

SANTA CLARA VALLEY HABITAT AGENCY

STATEMENT OF NET POSITION

June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 10,024,899
Accounts receivable	1,123,438
Prepaid expenses	<u>5,091</u>
Total assets	<u>11,153,428</u>
LIABILITIES	
Accounts payable	158,246
Accrued payroll	29,173
Noncurrent liabilities:	
Compensated absences	<u>39,255</u>
Total liabilities	<u>226,674</u>
NET POSITION	
Restricted for:	
Perptual care	1,634,410
Maintenance	14,994
Conservation and preservation	7,262,283
Unrestricted	<u>2,015,067</u>
Total net position	<u>\$ 10,926,754</u>

The notes to basic financial statements are an integral part of this statement.

SANTA CLARA VALLEY HABITAT AGENCY

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2017

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Contributions and Grants	Revenue and Changes in Net Position
			Capital Contributions and Grants	
Governmental activities:				
Habitat conservation	\$ 3,427,388	\$ 3,733,608	\$ 90,158	\$ -
Total governmental activities	<u>\$ 3,427,388</u>	<u>\$ 3,733,608</u>	<u>\$ 90,158</u>	<u>\$ -</u>
General Revenues:				
Investment income				91,150
Other revenue				<u>34,112</u>
Total general revenues				<u>125,262</u>
Change in net position				<u>521,640</u>
Net position, beginning of fiscal year				10,439,772
Prior period adjustment				<u>(34,658)</u>
Net position, beginning of fiscal year restated				<u>10,405,114</u>
Net position, end of fiscal year				<u>\$ 10,926,754</u>

The notes to basic financial statements are an integral part of this statement.

SANTA CLARA VALLEY HABITAT AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2017

	General Fund	AB1600 Fund	Permanent Fund	Total
ASSETS				
Cash and investments	\$ 2,078,937	\$ 6,296,558	\$ 1,649,404	\$ 10,024,899
Accounts receivable		1,123,438		1,123,438
Prepaid expenditures	5,091			5,091
Total assets	<u>\$ 2,084,028</u>	<u>\$ 7,419,996</u>	<u>\$ 1,649,404</u>	<u>\$ 11,153,428</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 533	\$ 157,713	\$ -	\$ 158,246
Accrued payroll	29,173			29,173
Total liabilities	<u>29,706</u>	<u>157,713</u>		<u>187,419</u>
Fund Balances:				
Nonspendable:				
Prepaid expenditures	5,091			5,091
Perptual care			1,634,410	1,634,410
Restricted				
Conservation and preservation		7,262,283		7,262,283
Maintenance			14,994	14,994
Unassigned	2,049,231			2,049,231
Total fund balances	<u>2,054,322</u>	<u>7,262,283</u>	<u>1,649,404</u>	<u>10,966,009</u>
Total liabilities and fund balances	<u>\$ 2,084,028</u>	<u>\$ 7,419,996</u>	<u>\$ 1,649,404</u>	<u>\$ 11,153,428</u>

The notes to basic financial statements are an integral part of this statement.

SANTA CLARA VALLEY HABITAT AGENCY
RECONCILIATION OF THE GOVERNMENTAL
FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2017

Total fund balances - governmental funds \$ 10,966,009

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

Long-term compensated absences have not been included in the
governmental fund activity.

(39,255)

Total net position - governmental activities

\$ 10,926,754

The notes to basic financial statements are an integral part of this statement.

SANTA CLARA VALLEY HABITAT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2017

	General Fund	AB1600 Fund	Permanent Fund	Total
Revenues:				
Land cover fees	\$ -	\$ 2,303,208	\$ -	\$ 2,303,208
Serpentine fees		110,138		110,138
Western burrowing owl fees		287,636		287,636
Nitrogen deposition fees		131,648		131,648
Wetland fees		549,473		549,473
Regional general permit		14,483		14,483
Participating special entity fees		5,000		5,000
Administrative fees		7,145		7,145
Grant income		90,158		90,158
Endowment fees			324,877	324,877
Interest income	19,269	56,887	14,994	91,150
Other income	34,112			34,112
	<u>53,381</u>	<u>3,555,776</u>	<u>339,871</u>	<u>3,949,028</u>
Total revenues				
Expenditures:				
Administrative	1,094,219			1,094,219
Technical and permitting support		309,858		309,858
Conservation strategy implementation		1,750,192		1,750,192
Reimbursements to participants		268,522		268,522
	<u>1,094,219</u>	<u>2,328,572</u>	<u></u>	<u>3,422,791</u>
Total expenditures				
Net change in fund balances	<u>(1,040,838)</u>	<u>1,227,204</u>	<u>339,871</u>	<u>526,237</u>
Fund balances - July 1	3,095,160	6,610,923	733,689	10,439,772
Prior period adjustments		(575,844)	575,844	
Fund balances - July 1, restated	<u>3,095,160</u>	<u>6,035,079</u>	<u>1,309,533</u>	<u>10,439,772</u>
Fund balances - June 30	<u>\$ 2,054,322</u>	<u>\$ 7,262,283</u>	<u>\$ 1,649,404</u>	<u>\$ 10,966,009</u>

The notes to basic financial statements are an integral part of this statement.

SANTA CLARA VALLEY HABITAT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2017

Net change in fund balances - governmental funds	\$	526,237
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Amounts reported for governmental activities in the statement of activities are different because:

In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid). This fiscal year, vacation earned exceeded the amounts used by \$4,597.

(4,597)

Change in net position - governmental activities	\$	<u>521,640</u>
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The notes to basic financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Santa Clara Valley Habitat Agency (Agency) was formed in April 2013, and is responsible for implementing the Habitat Plan, which was developed by the Santa Clara Valley Transportation Agency, Santa Clara Valley Water District, County of Santa Clara, and the Cities of Gilroy, Morgan Hill, and San Jose (the Permittees). The Habitat Plan covers about two-thirds of the area of Santa Clara County. The Habitat Plan provides streamlined state and federal permitting for public and private projects, while offering a comprehensive and effective way to address impacts of those projects on endangered and threatened species and their habitats. The most significant role of the Habitat Agency is to acquire and manage a Reserve System of properties which will serve as mitigation for project impacts and contribute to the recovery of the species covered by the Habitat Plan.

The Habitat Agency coordinates with science advisors, outside consultants, and other land management agencies to ensure adequate and coordinated Habitat Plan implementation. The Habitat Agency includes, as part of staff or contract resources, a network of scientists, administrators, and other specialists that oversee and carry out planning and design, habitat restoration, monitoring, and adaptive management programs. The Habitat Agency is a Joint Powers Authority (JPA) composed of the Cities of Gilroy, Morgan Hill, and San Jose, and Santa Clara County. The JPA is limited to the four participating jurisdictions because the Joint Exercise of Powers Act requires that a JPA can only exercise powers held by all the participating agencies. Of the agencies participating in Plan formation, only four jurisdictions had the authority to adopt the Habitat Plan, all of the Permittees have a role in the Habitat Agency. The Habitat Agency has two decision-making bodies, a Governing Board composed of JPA members and an Implementation Board composed of all Permittees.

The financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The reporting entity is the Santa Clara Valley Habitat Agency. There are no component units included in this report which meets the criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, No. 61, and No. 80.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) the annual benefit assessment that is assessed to all property owners within the Agency's service area and is reported as charges for services, and 2) contract services that represent service zones for service to other agencies or entities for service outside the Agency's current service area. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Agency's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The Agency does not allocate

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation (Continued)

indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Agency, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Agency.

Fund Financial Statements:

Fund financial statements report detailed information about the Agency. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases, (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Agency, “available” means collectible within the current period or within 60 days after fiscal year-end.

Non-exchange transactions, in which the Agency receives value without directly giving equal value in return, include property taxes and grants. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the Agency must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Agency on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Basis of Accounting (Continued)

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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

F. Fund Accounting

The accounts of the Agency are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance or net position, revenues, and expenditures. The Agency's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Agency's accounts are organized into three major funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund.

The *AB1600 Special Revenue Fund* is used to account for revenue collected for conservation and preservation efforts.

The *Endowment Permanent Fund* is used to report resources that are legally restricted to the extent that only earnings, and not principal, maybe used for future maintenance of conservation areas.

G. Budgets and Budgetary Accounting

The Agency adopts an annual budget on or before August 30 of each fiscal year. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations.

The Board of Trustees may amend the budget by motion during each fiscal year. The original and revised budgets are presented for the General Fund and the AB1600 Fund.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the Agency are subject to annual review by the Board of Trustees; hence, they legally are one-year contracts with an option for renewal for another fiscal year.

H. Prepaid Expenditures

The Agency has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The Agency has chosen to report the expenditure during the period benefited.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the Agency.

J. Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the governmental column in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the statement of net position. The estimated useful lives are as follows:

Equipment	5 to 15 years
Structures	15 to 50 years

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, requires management to make 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 and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

L. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

M. Compensated Absences

The Agency's policy permits employees to accumulate earned but unused vacation. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund from which it will be paid. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements.

N. Fund Balances

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balances (Continued)

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the Agency’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the Agency intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the Agency.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the Agency considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Agency considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

O. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 75	"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 81	"Irrevocable Split-Interest Agreements"	The provisions of this statement are effective for fiscal years beginning after December 15, 2016.
Statement No. 82	"Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 83	"Certain Asset Retirement Obligations"	The provisions of this statement are effective for fiscal years beginning after June 15, 2018.
Statement No. 84	"Fiduciary Activities"	The provisions of this statement are effective for fiscal years beginning after December 15, 2018.
Statement No. 85	"Omnibus 2017"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 86	"Certain Debt Extinguishment Issues"	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after December 15, 2019.

SANTA CLARA VALLEY HABITAT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - CASH AND INVESTMENTS

On June 30, 2017, the Agency had the following cash and investments on hand:

Cash and investments on deposit with County Treasurer	\$ 10,024,899
Total cash and investments	<u>\$ 10,024,899</u>

Cash and investments are presented on the accompanying basic financial statements, as follows:

Cash and investments, statement of net position	\$ 10,024,889
Total cash and investments	<u>\$ 10,024,889</u>

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Agency had investments in the Santa Clara County Investment Pool, however, that pool is not measured under Level 1, 2 or 3.

Investments Authorized by the Agency's Investment Policy

The Agency's investment policy only authorizes investment in the local government investment pool administered by the County of Santa Clara. The Agency's investment policy does not contain any specific provisions intended to limit the Agency's exposure to interest rate risk, credit risk, and concentration of credit risk.

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 Agency 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.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by fiscal agents) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
Santa Clara County Investment Pool	\$ 10,024,899	\$ 10,024,899	\$ -	\$ -	\$ -
Total	<u>\$ 10,024,899</u>	<u>\$ 10,024,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 rating by a nationally recognized statistical rating organization. Presented below, is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

SANTA CLARA VALLEY HABITAT AGENCY
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2017

NOTE 2 - CASH AND INVESTMENTS

Disclosures Relating to Credit Risk (Continued)

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Santa Clara County Investment Pool	\$10,024,899	N/A	\$ -	\$ -	\$ -	\$10,024,899
Total	\$10,024,899		\$ -	\$ -	\$ -	\$10,024,899

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total Agency investments.

Custodial Credit Risk

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, 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 Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Santa Clara County Investment Pool).

Investment in Santa Clara County Investment Pool

The Agency is a participant in the Santa Clara County Investment Pool that is regulated by the California Government Code. The fair value of the Agency's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the Agency's pro-rata share of the fair value provided by the Santa Clara County Investment Pool for the entire Santa Clara County Investment Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Santa Clara County Investment Pool, which are recorded on an amortized cost basis.

NOTE 3 – CAPITAL ASSETS

The Agency did not have any capital assets as of the fiscal year ended June 30, 2017.

NOTE 4 – LONG-TERM DEBT

Changes in long-term liabilities

The following is a summary of long-term liability activity for the fiscal year ended June 30, 2017:

	<u>Balance July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Prior Period Adjustment</u>	<u>Balance June 30</u>	<u>Due Within One Year</u>
Governmental activities:						
Compensated absences	\$ -	\$ 51,045	\$ 46,448	\$ 34,658	\$ 39,255	\$ -
Governmental activities						
Long-term liabilities	\$ -	\$ 51,045	\$ 46,448	\$ 34,658	\$ 39,255	\$ -

SANTA CLARA VALLEY HABITAT AGENCY

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE 5 – NET POSITION

The government-wide financial statements utilize a net position presentation. GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is categorized as either net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position– This category represents net position of the Agency, not restricted for any project or other purpose.

NOTE 6 – EXCESS OF EXPENDITURES UNDER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds is as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
Major Fund:	
AB1600 Fund	
Technical and permitting support	\$ 9,858
Conservation strategy implementation	\$ 25,192
Reimbursements to participants	\$ 268,522

NOTE 7 – PRIOR PERIOD ADJUSTMENT

In the government-wide financial statements, the Agency did not report compensated absences in the prior year in the amount of \$34,658. In the governmental funds, \$575,844 was recorded in the AB1600 Fund instead of the Permanent Fund.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA CLARA VALLEY HABITAT AGENCY
BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
For the Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
Revenues:				
Interest income	\$ -	\$ -	\$ 19,269	\$ 19,269
Other income			34,112	34,112
Total revenues			53,381	53,381
Expenditures:				
Administrative	1,141,194	1,141,194	1,094,219	46,975
Total expenditures	1,141,194	1,141,194	1,094,219	46,975
Net change in fund balance	(1,141,194)	(1,141,194)	(1,040,838)	100,356
Fund balance - July 1	3,095,160	3,095,160	3,095,160	
Fund balance - June 30	<u>\$ 1,953,966</u>	<u>\$ 1,953,966</u>	<u>\$ 2,054,322</u>	<u>\$ 100,356</u>

SANTA CLARA VALLEY HABITAT AGENCY
BUDGETARY COMPARISON SCHEDULE- AB1600 FUND
For the Fiscal Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Favorable</u> <u>(Unfavorable)</u>
Revenues:				
Land cover fees	\$ 4,830,000	\$ 2,730,000	\$ 2,303,208	\$ (426,792)
Serpentine fees	575,000	228,500	110,138	(118,362)
Western burrowing owl fees	4,985,000	292,000	287,636	(4,364)
Nitrogen deposition fees	90,000	366,319	131,648	(234,671)
Wetland fees	175,000	244,000	549,473	305,473
Regional general permit			14,483	14,483
Participating special entity fees	425,000	524,240	5,000	(519,240)
Administrative fees			7,145	7,145
Grant income	8,000,000	14,541,000	90,158	(14,450,842)
Interest income			56,887	56,887
Total revenues	19,080,000	18,926,059	3,555,776	(15,370,283)
Expenditures:				
Technical and permitting support	382,000	300,000	309,858	(9,858)
Conservation strategy implementation	2,144,183	1,725,000	1,750,192	(25,192)
Reimbursements to participants			268,522	(268,522)
Total expenditures	2,526,183	2,025,000	2,328,572	(303,572)
Net change in fund balance	16,553,817	16,901,059	1,227,204	(15,673,855)
Fund balance - July 1	6,610,923	6,610,923	6,610,923	
Prior period adjustments			(575,844)	(575,844)
Fund balance - July 1, restated	6,610,923	6,610,923	6,035,079	(575,844)
Fund balance - June 30	\$ 23,164,740	\$ 23,511,982	\$ 7,262,283	\$ (16,249,699)