

# **CITY OF RIVERSIDE**

Riverside, California

## **REPORT OF NORTHSIDE PROPERTY TRANSACTIONS**

Including Independent Accountants' Report

January 12, 2016

# CITY OF RIVERSIDE

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## INDEPENDENT ACCOUNTANTS' REPORT

To the City Council of  
City of Riverside  
Riverside, California

We have examined management's assertion that the Northside property transactions, identified as Pellisier Ranch, Ab Brown, Reid Park and the Golf Course, have been recorded in accordance with Generally Accepted Accounting Principles, the property transfers were properly approved by the City Council, the purchase price paid for the property was appropriately supported, title remained with the City, and the transfers were completed within the City's approved policies. The City of Riverside management is responsible for the assertion. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting management's assertion and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, management's assertion referred to above presents, in all material respects, the Northside property transactions based on Generally Accepted Accounting Principles and the criteria noted above.

Our examination was conducted for the purpose of forming an opinion on management's assertion referred to above. The supplemental information is presented for purposes of additional analysis and is not a required part of management's assertion. Such information is the responsibility of management and was derived from and relates directly to management's assertion referred to above. The information has been subjected to the examination procedures applied in the examination of management's assertion referred to above and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare management's assertion, and other additional procedures in accordance with attestation standards established by the American Institute of Certified Public Accountants. In our opinion, the information is fairly stated in all material respects in relation to management's assertion referred to above.

This report is intended solely for the information and use of the management and City Council of the City of Riverside and is not intended to be and should not be used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
January 12, 2016

## **SUPPLEMENTAL INFORMATION**

# CITY OF RIVERSIDE

## SUPPLEMENTAL INFORMATION

### Executive Summary

Baker Tilly was engaged to review and give an opinion as to whether the City's Northside property transfers have been recorded in accordance with Generally Accepted Accounting Principles, the property transfers were properly approved by the City Council, the purchase price paid for the property was appropriately supported, title remained with the City, and the transfers were completed within the City's approved policies. We reviewed the transactions and gave an opinion in this report that the City's Northside property transfers were properly recorded under GAAP, the property transfers were approved by the City Council, the purchase price was appropriately supported, the title remained with the City and the transfers were completed within the City's approved policies.

This section of our report includes several findings for consideration by the City and also a discussion on best practices followed for the recording of similar transactions.

### Findings, Recommendations, and Management's Responses

While we give an opinion in this report that the Northside property transfers were properly recorded under GAAP, we have several findings and recommendations for management's consideration:

Finding	Recommendation
1. During discussions with management and review of council minutes, it appeared the AB Brown and Reid Park / Golf Course properties included water wells and other land associated with water property. It was unclear based on review of the detailed fixed asset listings if the land specific to the water fund was retained in that fund.	<i>We recommend the City review its detailed fixed asset listings to ensure the specific property is recorded in the correct fund.</i>
<b>Management's response:</b> <p>Management agrees with this recommendation when the value of the property is material. These parcels were acquired many decades ago, and are carried at a book value reflecting the purchase prices paid at that time. As a result, the value of the small portions of the properties' value that relate to water wells, water rights, and easements is deemed to be immaterial. These portions of the property were documented in the maps presented to the Board and City Council at the time of the transfer, and at such time as the properties are sold to third parties appropriate parcel maps will be recorded that clearly illustrate the property retained by the Utility with title remaining with the City for the benefit of the Utility.</p> <p>Additionally, recognizing that in the future similar immaterially-valued assets may be retained at the time of sales or transfers, the City will include a statement in the related Board/City Council report and/or resolution that acknowledges that the utility will retain ownership of all wells, water rights, and easements.</p>	

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#### Findings, Recommendations and Management's Response (cont.)

Finding	Recommendation
2. During review of the transactions, we noted one instance when an independent appraisal was not performed. For the golf course property the City prepared a comparable property listing based on the best information on hand to determine a reasonable estimate of the fair market value of the property.	<i>We recommend the City obtain an appraisal from an independent source for any property transfers, when possible.</i>
<b>Management's response:</b>  Management agrees with the recommendation. The City follows best practices in recording property transactions and makes an effort to obtain third-party appraisals whenever possible. In certain limited instances, circumstances may not afford the time to complete an independent appraisal. City staff will make every reasonable effort, time permitting, to procure appraisals for property, especially for those properties that are likely to exceed \$1 million in value. In instances where this is not possible, analysis will be conducted by City staff to determine a reasonable value based on an analysis of recent comparable sales and the Board and/or City Council reports related to the transaction will specifically indicate whether or not an independent appraisal was obtained, and if none was obtained the reason why it was not possible to do so. The City will modify its existing Administrative Manual policy relative to real property acquisition to reflect these changes.	

#### Best Practices

As part of this project we performed a comparison of the City's practices in this area to best practices. True best practices in this area are those put forth by generally accepted accounting principles and the standards of establishing strong internal controls through the COSO<sup>1</sup> framework, an industry standard.

The accounting standards for recording property transfers in public sector entities is governed by Governmental Accounting Standards Board (GASB) Statement No. 48 - *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, deals with transfers of capital assets between funds. Best practices #1 and #2 in the following table refer to transfers of property within the same reporting entity – ie. the City, all its funds and RPU would constitute the same reporting entity.

<sup>1</sup> Committee of Sponsoring Organizations

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#### Best Practices (cont.)

The comparison follows:

Best Practice	City Approach
<p>1. Property transferred should be recorded by the entity receiving the property at the <b>carrying value</b> of the entity transferring the property.</p> <p><b>For example:</b> No payment is part of this transaction. The City has a property parcel recorded on its books at \$100,000. It transfers that property to RPU. RPU should record it at \$100,000.</p>	<p>The City followed best practices in properly recording the transactions.</p>
<p>2. If a payment is made as part of the transaction, any gain or loss over the carrying value should be recognized.</p> <p><b>For example:</b> RPU pays the City \$150,000 for the parcel in #1 above. The City general fund should report an <i>“other financing source”</i> of \$50,000 from the transaction for the proceeds over the carrying value. RPU should record the parcel at \$100,000 and record a <i>“transfer”</i> out to the general fund for \$50,000.</p>	<p>The City followed best practices in properly recording the transactions.</p>
<p>3. Best business practices are that properties are independently appraised on sale or transfer to another entity to ensure that they are valued at fair value and the transferring entity receives the market price for the property.</p>	<p>Best practices are that independent appraisals are obtained for all property transfers. City staff will make every reasonable effort, to procure appraisals for property, especially for those properties that are most likely in excess of \$1 million in value.</p>

Our conclusion is that the City and RPU followed best industry practices in recording the Northside property transfers.

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#### **Exhibit 1 – Scope of Services**

This exhibit is to show a detailed scope of the services provided by Baker Tilly Virchow Krause, LLP (“Baker Tilly”) for the examination related to management’s assertion that the City’s Northside property transfers have been recorded in accordance with Generally Accepted Accounting Principles, the property transfers were properly approved by the City Council, the purchase price paid for the property was appropriately supported, title remained with the City, and the transfers were completed within the City’s approved policies. Under AICPA standards, Baker Tilly developed a work plan, completed the necessary testing and reporting that would provide the proper assurance regarding the City’s assertion.

Baker Tilly’s work plan included:

- > obtaining a full population of the Northside property transfers;
- > reviewing the City’s prior and current use of the properties;
- > reviewing board approvals and discussions related to the properties;
- > reviewing the journal entries for the transfers;
- > reviewing journal entries related to the related interfund loans;
- > reviewing the valuation of the properties at the time of transfer; and
- > observing the transfers in the City’s detailed fixed asset listing.

#### **Exhibit 2 – Schedule of Procedures Performed and Support for Findings and Recommendations**

This exhibit details the testing procedures performed by Baker Tilly and the results of that test work.

**Procedure #1:** Complete a walkthrough with City management to identify the population of property transfers, gain an understanding of the purpose of the transfers and obtain historical background of the prior and current use of the properties. Obtain and review internal audit report dated August 5, 2008 regarding the proper recording of interfund loans.

**Results:** The City identified the properties as listed on the Summary of Northside Property Transfers, exhibit 1 of this Report, which we examined in the subsequent procedures.

Based on the City’s internal audit review of interfund loans, it was recommended by the internal auditors to implement a interfund loan policy which would outline; which funds could make loans, purposes allowed, limiting a fund’s cash balance allowed to be lent, reasonable repayment terms, charging of interest at the City’s pooled cash rate and the specific accounting rules to be followed for recording interfund loans and the related interest accruals.

The City’s interfund loan policy was last amended in October 2011. When reviewing the policy it was noted that the policy directly addressed all items recommended by the internal audit as discussed in the preceding paragraph. During review of the specific interfund loans related to the property transfers, we noted no instances in which the City did not comply with its policy.

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#### Exhibit 2 – Schedule of Procedures Performed and Support for Findings and Recommendations (cont.)

**Procedure #2:** Obtain board minutes and other internal documents to gain additional understanding of the purpose of the property transfers and note approval of the property transfers.

**Results:** Viewed the following board minutes for approval of transfers of property:

Property	Sale From	Sale To	City Council Approval Date
Pellisier Ranch	Water	General Fund	Dec 6, 2005
Pellisier Ranch	General Fund	Water	June 16, 2009
Ab Brown	Water	Electric	Jan 4, 2011
Reid Park	Water	Electric	Jan 25, 2011
Reid Park	Electric	General Fund	Jan 25, 2011
Golf Course	Water	Electric	Jan 25, 2011
Golf Course	Electric	General Fund	Jan 25, 2011

Baker Tilly noted that each of the property transfers in the population was approved by the City Council.

The following outlines the purpose of each transfer.

**Pellisier Ranch:** Originally purchased to secure local water rights and resources for the water fund (an enterprise fund of the City). In 2005, the property was transferred to the general fund to facilitate development of the property in conjunction with the City of Colton. As a result of the economic downturn it was determined that the development of the property was not feasible and it was reverted back to the water fund in 2009 to be retained for future water treatment facility and potential water well developments.

**Ab Brown:** Was originally purchased to secure local water rights and future resources for water fund customers. In 2011, it was determined that the water fund did not anticipate future development on the property, but the electric fund, which had limited land holdings, would be able to redistribute its assets to acquire the property.

**Reid Park / Golf Course:** Originally purchased to secure local water rights and future resources for water fund customers. In 2011, it was determined that a portion of the land could be acquired by the general fund to maximize potential of the property and prevent blighted conditions within the neighborhood. The general fund acquired 100% of Reid Park and 64 acres of approximately 126 total acres of the golf course. The properties were first transferred to the electric fund as it was determined that it was more advantageous to have the interfund loan in the electric fund.

Based on the documentation obtained through detailed review of board minutes related to the Reid Park / Golf Course transaction, we were unable to determine if the water fund retained rights or a portion of the property for areas in which water wells are currently located. Based on the property map received and discussions with management regarding the current use of the land, the intention of the property is for the areas in which wells are placed be retained with the water utility.

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#### **Exhibit 2 – Schedule of Procedures Performed and Support for Findings and Recommendations (cont.)**

**Procedure #2:** (cont.)

Baker Tilly also noted that City staff indicated that the water fund had retained water rights and/or land associated with water property on the AB Brown property. Based on our review of the property transfer, it was unclear if the water fund had retained any rights or land associated with AB Brown.

**Procedure #3:** Obtain detailed accounting records for each property transfer. In addition, select a sample of transactions for any interfund loan related to the Northside property transactions to review, including interest accruals and loan payments, if applicable.

**Results:** Baker Tilly viewed journal entries made to record the initial property transfer to ensure the transactions were recorded in compliance with Generally Accepted Accounting Principles. We noted in one instance, related to the Pellisier Ranch initial transaction, accounting records were not available for our review. In accordance with the City's record retention policy, records prior to fiscal year 2010 are no longer retained. Baker Tilly viewed the City's fixed asset records and noted the water fund showed the property was disposed of when the original transfer occurred in 2005 and in 2009 was recorded as active for approximately the same price.

Furthermore, Baker Tilly selected a sample of transactions related to the interfund loans, including accrued interest and any principal payments. Baker Tilly noted no exceptions when recalculating accrued interest at the City's pooled investment rate and when reviewing the journal entries for proper accounting treatment.

**Procedure #4:** Complete detailed research of authoritative accounting guidance to determine proper accounting of the Northside property transfers.

**Results:** Baker Tilly reviewed GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for periods beginning after December 15, 2006. It was noted that all but the initial property transfer would have occurred after the effective date of this standard. All transactions subsequent to fiscal 2008, when the City implemented the standard, were properly recorded in compliance with this standard.

**Procedure #5:** Review property appraisals or other supporting information to determine the fair market value at the time of the transfer.

**Results:** Appraisals were provided for Pellisier Ranch, Ab Brown and Reid Park properties. Baker Tilly reviewed the appraisals provided and noted that they were conducted by an outside vendor, not in relation to the City. The appraisals supported the fair market value at which the properties were transferred.

In relation to the golf course property, City staff prepared a comparable property listing similar to the process followed by appraisers to determine a reasonable estimate of the fair market value. The amount determined to be fair market value was the amount in which the property was transferred.

We recommend that the City obtain an appraisal, if an extended period of time has elapsed since the last appraisal, of each property prior to its transfer to accurately determine the current fair market value by someone independent of the property transaction. Obtaining a current appraisal of a property prior to transfer should allow for more clarity as to how the value was determined as it is specifically outlined in a report.

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#### **Exhibit 2 – Schedule of Procedures Performed and Support for Findings and Recommendations** (cont.)

**Procedure #6:** View City fixed asset records to determine how the assets are recorded in the detailed accounting records and to ensure the assets were recorded in the correct fund.

**Results:** Detailed fixed asset records were provided by the City for each property outlined in the population of transactions. For each property, Baker Tilly was able to view the current and prior recording of the property in the various funds of the City. We noted no exceptions during our review which would indicate that the properties were not properly recorded in the fixed asset listing over the course of the transfers.