



Los Cerritos Wetlands Authority

Annual Financial Report

For the Fiscal Year Ended September 30, 2011



Los Cerritos Wetlands Authority

Our Mission Statement

“To provide for a comprehensive program of acquisition, protection, conservation, restoration, maintenance and operation, and environmental enhancement of the Los Cerritos Wetlands area consistent with the goals of flood protection, habitat protection and restoration, and improved water supply, water quality, groundwater recharge and water conservation.”

Our Governing Board

Members

City of Long Beach

Chair: Gary DeLong

Alternate: Vacant

State Coastal Conservancy

Vice-Chair: Sam Schuchat

Alternate: Mary Small

City of Seal Beach

Member: Ellery Deaton

Alternate: Mike Levitt

Rivers and Mountains Conservancy

Member: Patrick O'Donnell

Alternate: Daniel Sulzer

Los Cerritos Wetlands Authority
Annual Financial Report
For the Fiscal Year Ended September 30, 2011

**Los Cerritos Wetlands Authority
Annual Financial Report
For the Fiscal Year Ended September 30, 2011**

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Financial Section



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Independent Auditor's Report

Governing Board
Los Cerritos Wetlands Authority
Long Beach, California

We have audited the accompanying financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Los Cerritos Wetlands Authority as of September 30, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1.B to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, for the year ended September 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 15, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report can be found on page 19.

Independent Auditor's Report, continued

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the Budgetary Comparison Schedule – General Fund on page 18 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Charles Z. Fedak = Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
Cypress, California
March 15, 2012

Los Cerritos Wetlands Authority
Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2011

As management of the Los Cerritos Wetlands Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities and performance of the Authority for the fiscal year ended September 30, 2011. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

Financial Highlights

- The Authority's net assets decreased 0.76% or \$84,303 from \$11,061,572 to \$10,977,269, as a result of this year's operations.
- The Authority's total revenues increased 115.07% or \$60,423 from \$52,510 to \$112,933, from the prior year primarily due to an increase in program revenue.
- The Authority's total expenses increased 313.49% or \$149,536 from \$47,700 to \$197,236, from the prior year primarily due to an increase in grant labor, materials, management expenses, and consulting fees.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities and performance of the Authority using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the Authority's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenue and expenses are accounted for in the Statements of Activities. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Authority's *net assets* and changes in them. Think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Authority's organizational agreements to assess the *overall health* of the Authority in future periods.

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Fiscal Year Ended September 30, 2011

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing 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 *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's budgetary information and compliance.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets of the Authority exceeded liabilities by \$10,977,269 as of September 30, 2011.

Condensed Statement of Net Assets

	2011	2010	Change
Assets:			
Current assets	\$ 76,877	70,072	6,805
Capital assets, net	11,000,000	11,000,000	-
Total assets	\$ 11,076,877	11,070,072	6,805
Liabilities:			
Current liabilities	\$ 99,608	8,500	91,108
Total liabilities	\$ 99,608	8,500	91,108
Net assets:			
Net investment in capital assets	\$ 11,000,000	11,000,000	-
Unrestricted	(22,731)	61,572	(84,303)
Total net assets	\$ 10,977,269	11,061,572	(84,303)

At the end of fiscal year 2011, the Authority shows a deficit balance in its unrestricted net assets of \$22,731.

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Fiscal Year Ended September 30, 2011

Condensed Statement of Activities

<i>Governmental Activities</i>	<u>2011</u>	<u>2010</u>	<u>Change</u>
Expenses:			
Authority operations	\$ 197,236	47,700	149,536
Total expenses	<u>197,236</u>	<u>47,700</u>	<u>149,536</u>
Revenues:			
Program revenues	75,915	27,000	48,915
General revenues	37,018	25,510	11,508
Total revenues	<u>112,933</u>	<u>52,510</u>	<u>60,423</u>
Change in net assets	(84,303)	4,810	(89,113)
Net assets – beginning of year	<u>11,061,572</u>	<u>11,056,762</u>	<u>4,810</u>
Net assets – end of year	<u>\$ 10,977,269</u>	<u>11,061,572</u>	<u>(84,303)</u>

The Statement of Activities shows how the government's net assets changed during the fiscal year. In the case of the Authority, net assets decreased by \$84,303 during the fiscal year ended September 30, 2011.

Governmental Funds Financial Analysis

The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of September 30, 2011, the Authority's General Fund reported a deficit fund balance of \$22,731. This amount constitutes the Authority's *unreserved undesignated fund balance* that is available for future Authority expenditures.

General Fund Budgetary Highlights

At fiscal year-end, actual expenditures for the General Fund were \$5,564,434 less than final budgeted expenditures and actual revenues were \$5,658,737 less than final budgeted revenues. This was principally due to the Authority not securing the full balance of the grant funding in the amount of \$5,210,000 for the acquisition of land (See Page 18).

Capital Asset Administration

At the end of fiscal year 2011, the Authority's investment in capital assets amounted to \$11,000,000. This investment in capital assets includes land that is managed by the Authority.

Changes in capital assets for the year were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2011</u>
Land	\$ 11,000,000	-	-	11,000,000
Total capital assets, net	<u>\$ 11,000,000</u>			<u>11,000,000</u>

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Fiscal Year Ended September 30, 2011

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the Authority's current financial position, net assets or operating results in terms of past, present and future.

Requests for Information

The Authority's basic financial statements are designed to present users with a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have any questions about the report or need additional information, please contact the Authority at Los Cerritos Wetlands Authority, C/O the City of Long Beach Financial Management Department, 333 West Ocean Blvd., Long Beach, CA 90802.

Basic Financial Statements

Los Cerritos Wetlands Authority
Statements of Net Assets
September 30, 2011
(with comparative amounts for September 30, 2010)

	<u>2011</u>	<u>2010</u>
Assets:		
Cash and cash equivalents (note 2)	\$ 67,450	70,072
Accounts receivable	3,674	-
Prepaid insurance	5,753	-
Capital assets, net (note 3)	<u>11,000,000</u>	<u>11,000,000</u>
Total assets	\$ <u>11,076,877</u>	<u>11,070,072</u>
 Liabilities:		
Accounts payable and accrued expenses	\$ <u>99,608</u>	<u>8,500</u>
Total liabilities	\$ <u>99,608</u>	<u>8,500</u>
 Net assets:		
Net investment in capital assets	11,000,000	11,000,000
Unrestricted (note 4)	<u>(22,731)</u>	<u>61,572</u>
Total net assets	\$ <u>10,977,269</u>	<u>11,061,572</u>

See the accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Statements of Activities
For the Fiscal Year Ended September 30, 2011
(with comparative amounts for the fiscal year ended September 30, 2010)

Governmental Activities:	2011	2010
Expenses:		
Authority operations	\$ 197,236	47,700
Total expenses	<u>197,236</u>	<u>47,700</u>
Program revenues:		
Capital grant	75,915	27,000
Total program revenues	<u>75,915</u>	<u>27,000</u>
Net program expense	<u>121,321</u>	<u>20,700</u>
General revenues:		
Rental income	35,000	25,000
Interest earnings	27	10
Other	1,991	500
Total general revenues	<u>37,018</u>	<u>25,510</u>
Change in net assets	(84,303)	4,810
Net assets – beginning of year	<u>11,061,572</u>	<u>11,056,762</u>
Net assets – end of year	<u>\$ 10,977,269</u>	<u>11,061,572</u>

See accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Reconciliation of the Balance Sheet of Governmental
Type Funds to the Statements of Net Assets
September 30, 2011

	General Fund	Reclassifications & Eliminations	Statement of Net Assets
Assets:			
Cash and cash equivalents	\$ 67,450	-	67,450
Accounts receivable	3,674	-	3,674
Prepaid insurance	5,753	-	5,753
Capital assets, net	-	11,000,000	11,000,000
Total assets	\$ 76,877	11,000,000	11,076,877
Liabilities:			
Accounts payable and accrued expenses	\$ 99,608	-	99,608
Total liabilities	99,608	-	99,608
Fund deficit (note 4):			
Nonspendable	5,753	(5,753)	-
Unassigned	(28,484)	28,484	-
Total fund deficit	(22,731)	22,731	-
Total liabilities and fund balance	\$ 76,877		
Net assets:			
Net investment in capital assets		11,000,000	11,000,000
Unrestricted		(22,731)	(22,731)
Total net assets		\$ 10,977,269	10,977,269
Reconciliation:			
Fund deficit of governmental funds			\$ (22,731)
Amounts reported for governmental activities in the statement of net assets is different because:			
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.			11,000,000
Net assets of governmental activities			\$ 10,977,269

See accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Type Funds to the Statements of Activities
For the Fiscal Year Ended September 30, 2011

	General Fund	Reclassifications & Eliminations	Statement of Activities
Expenditures/Expenses:			
Authority operations	\$ 197,236	-	197,236
Total expenditures/expenses	197,236	-	197,236
Program revenues:			
Capital grant	75,915	-	75,915
Total program revenues	75,915	-	75,915
Net program expense			121,321
General revenues:			
Rental income	35,000	-	35,000
Interest earnings	27	-	27
Other	1,991	-	1,991
Total general revenues	37,018	-	37,018
Total revenues	112,933	-	
Excess(deficiency) of revenues over(under) expenditures	(84,303)	84,303	-
Change in net assets	-	(84,303)	(84,303)
Fund balance/Net assets – beginning of year	61,572	-	11,061,572
Fund deficit/Net assets – end of year	\$ (22,731)	-	10,977,269

Reconciliation:

Net changes in fund balance of governmental fund	\$ <u>(84,303)</u>
Change in net assets of governmental activities	\$ <u><u>(84,303)</u></u>

See accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements
For the Fiscal Year Ended September 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

In February 2006, a joint powers agreement was adopted among the Rivers and Mountains Conservancy, State Coastal Conservancy, City of Long Beach, and the City of Seal Beach. The agreement established the Los Cerritos Wetlands Authority (Authority). Each party shall, subject to the availability of funds, make equal annual contributions (minimum \$5,000 and maximum \$25,000) to, or on behalf of, the Authority. The purpose of the Authority is to provide for a comprehensive program of acquisition, protection, conservation, restoration, maintenance and operation, and environmental enhancement of the Los Cerritos Wetlands area consistent with the goals of flood protection, habitat protection and restoration and improved water supply, water quality, groundwater recharge and water conservation. The Authority has the ability to acquire and own real property, although it does not have the power of eminent domain. A second major purpose of the Authority is to conduct restoration planning and implement that restoration.

The Authority entered into an agreement of land transfer with the Trust for Public Land for approximately 68 acres of property and surface rights; commonly known as the Bryant property in Long Beach, California. The Bryant property has been an active oil field for several decades and currently contains twelve active oil wells and associated pipelines, roads and buildings.

The acquisition of the Bryant property involved several legal agreements as follows:

- Land Transfer Agreement - Under this agreement the Trust for Public Lands would cause the conveyance of surface fee interest in the 68 acres to the Authority. The Authority would not acquire the mineral rights or the lessor's interest in the oil and gas lease. The Authority would accept title to the surface fee interest property as-is, subject to the Land Use Agreement and the Indemnification Agreement as discussed below.
- Land Use Agreement - This agreement is between Trust for Public Lands, Signal Hill Petroleum, and the Authority, acknowledging the intended use of the conveyed property and the retained property by Signal Hill Petroleum and the Authority. The purpose of the agreement is to ensure the intended use and access of the property for both the Authority and Signal Hill Petroleum.
- Termination of Oil and Gas Lease and Grant of Easement Agreement - This agreement is to define the specific access over and use of the surface property that the Authority grants Signal Hill Petroleum to allow for the existing and future oil operations. The agreement also defines conditions for the oil operations to ensure that they are consistent with the Authority's intended use for habitat restoration and public access. The Authority grants specific easements to Signal Hill Petroleum for oil operations. The easement shall expire when all oil operations are abandoned, and Signal Hill Petroleum shall pay rent of \$25,000 per year to the Authority for the use of these easements.
- Environmental Indemnity Agreement- Under the terms of this agreement, Signal Hill Petroleum indemnifies parties from liabilities associated with any release of materials generated from the oil or gas operations beyond the levels accepted for industrial use. This indemnification only includes liabilities associated with past and future environmental releases associated with oil and gas operations but not for liability for contamination that is unrelated to those activities.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

B. New Accounting Pronouncements

Government Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the Authority implemented Government Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for the financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. These classifications are described in the Fund Equity section of Note 1.D.7.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

C. Basis of Accounting and Measurement Focus

The *basic financial statements* of the Authority are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principals Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Authority are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2011

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

C. Basis of Accounting and Measurement Focus, continued

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-wide Financial Statements. The Authority has presented its General Fund, as its major fund, in this statement to meet the qualifications of GASB Statement No. 34.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Authority are interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The Authority reports the following major governmental fund:

General Fund – is a government’s only operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund when necessary.

D. Assets, Liabilities, Net Assets and Fund Equity

1. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in Authority net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

The Authority has contracted with the City of Long Beach Treasurer’s Office to act as its fiscal agent. Substantially all of the Authority’s cash is held in a financial institution bank account. The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

3. Accounts Receivable

The Authority considers accounts receivable to be fully collectible. Accordingly, an allowance for uncollectible accounts has not been recorded.

4. Prepaid Expenses

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

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2011

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

D. Assets, Liabilities, Net Assets and Fund Equity, continued

5. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets is land held by the Authority. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the Authority's capitalization threshold is met.

6. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

7. Fund Equity

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the Authority is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.
- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the Authority's highest level of decision-making authority (the Governing Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the Authority's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the Authority's special revenue funds.
- **Unassigned fund balance** – the residual classification for the Authority's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2011

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

D. Assets, Liabilities, Net Assets and Fund Equity, continued

7. Fund Equity, continued

The Governing Board established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

Fund Balance Policy

The Authority believes that sound financial management principles require that sufficient funds be retained by the Authority to provide a stable financial base at all times. To retain this stable financial base, the Authority needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the Authority and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the Authority's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

9. Budgetary Policies

The Authority follows specific procedures in establishing the budgetary data reflected in the financial statements. Each June the Authority's Executive Officer prepares and submits an operating budget to the Governing Board for the General Fund. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2011, consist of the following:

Deposits held with financial institutions	\$ <u>67,450</u>
Total cash and cash equivalents	\$ <u><u>67,450</u></u>

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The Authority had deposits with a bank balance of \$67,450 as of September 30, 2011. Of the bank balance, up to \$250,000 is federally insured and any remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Authority's name.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2011

(3) Capital Assets

Changes in capital assets for the year were as follows:

	Balance 2010	Additions	Deletions	Balance 2011
Land	\$ 11,000,000	-	-	11,000,000
Total capital assets, net	\$ 11,000,000			11,000,000

In 2006, an \$11,000,000 parcel of land was contributed to the Authority to manage as part of its operations.

(4) Fund Deficit

At September 30, 2011, the Authority had a deficit fund balance of \$22,731 primarily as a result of current year grant program activity expenditures, which is to be relieved from future grant program revenue.

(5) 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 has purchased various commercial insurance policies to manage the potential liabilities that may occur from the previously named sources.

(6) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2011, that has an effective date that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No.60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No.61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2011

(6) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 64

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

(7) Contingencies

Grant Awards

Grant funds received by the Authority are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Authority believes that such disallowances, if any, would not be significant.

Litigation

In the ordinary course of operations, the Authority is subject to claims and litigation from outside parties. After consultation with legal counsel, the Authority believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(8) Subsequent Events

Events occurring after September 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure as of March 15, 2012, which is the date the financial statements were available to be issued.

Required Supplementary Information

Los Cerritos Wetlands Authority
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended September 30, 2011

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Expenditures/Expenses:					
Authority operations:					
Services and supplies	\$ 551,670	-	551,670	197,236	354,434
Capital outlay	5,210,000	-	5,210,000	-	5,210,000
Total expenditures/expenses	<u>5,761,670</u>	<u>-</u>	<u>5,761,670</u>	<u>197,236</u>	<u>5,564,434</u>
Program revenues:					
Contributions - operating	500,500	-	500,500	-	(500,500)
Capital grant	5,200,000	10,000	5,210,000	75,915	(5,134,085)
Total program revenues	<u>5,700,500</u>	<u>10,000</u>	<u>5,710,500</u>	<u>75,915</u>	<u>(5,634,585)</u>
General revenues:					
Rental income	61,170	-	61,170	35,000	(26,170)
Interest earnings	-	-	-	27	27
Other	-	-	-	1,991	1,991
Total general revenues	<u>61,170</u>	<u>-</u>	<u>61,170</u>	<u>37,018</u>	<u>(24,152)</u>
Total revenues	<u>5,761,670</u>	<u>10,000</u>	<u>5,771,670</u>	<u>112,933</u>	<u>(5,658,737)</u>
Excess(deficiency) of revenues over(under) expenditures	<u>-</u>	<u>10,000</u>	<u>10,000</u>	<u>(84,303)</u>	<u>(94,303)</u>
Fund balance – beginning of year	<u>8,737</u>		<u>8,737</u>	<u>61,572</u>	
Fund balance (deficit) – end of year	<u>\$ 8,737</u>		<u>8,737</u>	<u>(22,731)</u>	

Notes to Required Supplementary Information

(1) Budgets and Budgetary Data

The Authority presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget. No Board-approved supplemental appropriations were made. The budgeted revenue amounts represent the adopted budget as originally provided.

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Report on Internal Controls and Compliance



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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
Los Cerritos Wetlands Authority
Long Beach, California

We have audited the basic financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2011, and have issued our report thereon dated March 15, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
Cypress, California
March 15, 2012