



Los Cerritos Wetlands Authority

Annual Financial Report

For the Fiscal Year Ended September 30, 2015



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

State Coastal Conservancy

Chair: Sam Schuchat

Alternate: Joan Cardellino

City of Long Beach

Vice-Chair: Suzie Price

Alternate: Vacant

City of Seal Beach

Member: Ellery Deaton

Alternate: Mike Varipapa

Rivers and Mountains Conservancy

Member: Roberto Uranga

Alternate: Celina Luna

Los Cerritos Wetlands Authority
Annual Financial Report
For the Fiscal Year Ended September 30, 2015

**Los Cerritos Wetlands Authority
Annual Financial Report
For the Fiscal Year Ended September 30, 2015**

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Financial Section



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Independent Auditor's Report

Governing Board
Los Cerritos Wetlands Authority
Long Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2015, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 audits 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of September 30, 2015, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

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 19 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 December 17, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance. This report can be found on pages 20 and 21.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 17, 2015

Los Cerritos Wetlands Authority
Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2015

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, 2015. 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 position decreased 0.50% or \$56,087 from \$11,129,524 to \$11,073,437, as a result of this year's operations.
- The Authority's total revenues increased 16.53% or \$20,375 from \$123,255 to \$143,630, primarily due to an increase in program revenue.
- The Authority's total expenses increased 111.01% or \$105,067 from \$94,650 to \$199,717, primarily due to a decrease in consulting fees.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position includes all of the Authority's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities) and deferred inflows of resources. 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 Position 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 Position and the Statement of Activities report information about the Authority in a way that helps answer this question.

These statements include all assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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 position* and changes in them. One can think of the Authority's net position – the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one 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, 2015

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. The notes to the basic financial statements can be found on pages 11 through 18.

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 position 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 \$11,073,437 as of September 30, 2015.

Condensed Statement of Net Position

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Assets:			
Current assets	\$ 113,713	171,670	(57,957)
Capital assets, net	<u>11,000,000</u>	<u>11,000,000</u>	<u>-</u>
Total assets	<u>11,113,713</u>	<u>11,171,670</u>	<u>(57,957)</u>
Liabilities:			
Current liabilities	<u>40,276</u>	<u>42,146</u>	<u>(1,870)</u>
Total liabilities	<u>40,276</u>	<u>42,146</u>	<u>(1,870)</u>
Net position:			
Net investment in capital assets	11,000,000	11,000,000	-
Unrestricted	<u>73,437</u>	<u>129,524</u>	<u>(56,087)</u>
Total net position	<u>\$ 11,073,437</u>	<u>11,129,524</u>	<u>(56,087)</u>

At the end of fiscal year 2015, the Authority shows a positive balance in its unrestricted net position of \$73,437.

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Fiscal Year Ended September 30, 2015

Condensed Statement of Activities

<i>Governmental Activities</i>	<u>2015</u>	<u>2014</u>	<u>Change</u>
Expenses:			
Authority operations	\$ 199,717	94,650	105,067
Total expenses	<u>199,717</u>	<u>94,650</u>	<u>105,067</u>
Revenues:			
Program revenues	118,622	80,243	38,379
General revenues	25,008	43,012	(18,004)
Total revenues	<u>143,630</u>	<u>123,255</u>	<u>20,375</u>
Change in net position	(56,087)	28,605	(84,692)
Net position – beginning of year	11,129,524	11,100,919	28,605
Net position – end of year	<u>\$ 11,073,437</u>	<u>11,129,524</u>	<u>(56,087)</u>

The Statement of Activities shows how the government's net position changed during the fiscal year. In the case of the Authority, net position decreased by \$56,087 during the fiscal year ended September 30, 2015.

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, 2015, the Authority's General Fund reported a fund balance of \$11,038. Of the fund balance reported an amount of \$9,335 is designated as *nonspendable* as it has already been spent towards prepaid insurance. The remaining balance of \$1,703 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 \$81,926 less than final budgeted expenditures and actual revenues were \$205,412 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 \$55,500 from the Rivers and Mountains Conservancy for the LCWA Trails Improvement Project.

Capital Asset Administration

At the end of fiscal year 2015, 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</u> <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2015</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, 2015

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 position 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 or directly at 100 Old San Gabriel Canyon Rd., Azusa, CA 91702, (626) 815-1019.

Basic Financial Statements

Los Cerritos Wetlands Authority
Statements of Net Position
September 30, 2015
(with comparative amounts for September 30, 2014)

	2015	2014
Assets:		
Cash and cash equivalents (note 2)	\$ 13,056	118,164
Accounts receivable	91,322	45,000
Prepaid insurance	9,335	8,506
Capital assets, net (note 3)	11,000,000	11,000,000
Total assets	11,113,713	11,171,670
Liabilities:		
Accounts payable	37,876	42,146
Security deposit	2,400	-
Total liabilities	40,276	42,146
Net position:		
Net investment in capital assets	11,000,000	11,000,000
Unrestricted	73,437	129,524
Total net position	\$ 11,073,437	11,129,524

See the accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Statements of Activities
For the Fiscal Year Ended September 30, 2015
(with comparative amounts for the fiscal year ended September 30, 2014)

Governmental Activities:	2015	2014
Expenses:		
Authority operations	\$ 199,717	94,650
Total expenses	<u>199,717</u>	<u>94,650</u>
Program revenues:		
Contributions – operating	67,399	65,000
Capital grant	51,223	15,243
Total program revenues	<u>118,622</u>	<u>80,243</u>
Net program expense	<u>81,095</u>	<u>14,407</u>
General revenues:		
Rental income	25,000	43,000
Interest earnings	8	12
Total general revenues	<u>25,008</u>	<u>43,012</u>
Change in net position	(56,087)	28,605
Net position – beginning of year	<u>11,129,524</u>	<u>11,100,919</u>
Net position – end of year	<u>\$ 11,073,437</u>	<u>11,129,524</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 Position
September 30, 2015

	General Fund	Reclassifications & Eliminations	Statement of Net Position
Assets:			
Cash and cash equivalents	\$ 13,056	-	13,056
Accounts receivable	91,322	-	91,322
Prepaid insurance	9,335	-	9,335
Capital assets, net	-	11,000,000	11,000,000
Total assets	\$ 113,713	11,000,000	11,113,713
Liabilities:			
Accounts payable	\$ 37,876	-	37,876
Security deposit	2,400	-	2,400
Unearned revenue	62,399	(62,399)	-
Total liabilities	102,675	(62,399)	40,276
Fund balance: (note 4)			
Nonspendable	9,335	(9,335)	-
Unassigned	1,703	(1,703)	-
Total fund balance	11,038	(11,038)	-
Total liabilities and fund balance	\$ 113,713		
Net position:			
Net investment in capital assets		11,000,000	11,000,000
Unrestricted		11,038	73,437
Total net position		\$ 11,011,038	11,073,437
Reconciliation:			
Fund balance of governmental funds		\$	11,038
Amounts reported for governmental activities in the statement of net position is different because:			
Revenues deferred which are not expected to be collected until sixty days from from fiscal year end.			62,399
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 position of governmental activities		\$	11,073,437

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, 2015

	<u>General Fund</u>	<u>Reclassifications & Eliminations</u>	<u>Statement of Activities</u>
Expenditures/Expenses:			
Authority operations	\$ 199,717	-	199,717
Total expenditures/expenses	<u>199,717</u>	<u>-</u>	<u>199,717</u>
Program revenues:			
Contributions – operating	25,000	42,399	67,399
Capital grant	51,223	-	51,223
Total program revenues	<u>76,223</u>	<u>42,399</u>	<u>118,622</u>
Net program revenue			<u>81,095</u>
General revenues:			
Rental income	25,000	-	25,000
Interest earnings	8	-	8
Total general revenues	<u>25,008</u>	<u>-</u>	<u>25,008</u>
Total revenues	<u>101,231</u>	<u>42,399</u>	
Excess of revenues over expenditures	(98,486)	98,486	-
Change in net position	-	(98,486)	(56,087)
Fund deficit/Net position – beginning of year	<u>109,524</u>	<u>-</u>	<u>11,129,524</u>
Fund balance/Net position – end of year	<u>\$ 11,038</u>	<u>-</u>	<u>11,073,437</u>

Reconciliation:

Net changes in fund balance of governmental fund	\$ (98,486)
Revenues deferred which are not expected to be collected until sixty days from from fiscal year end.	<u>42,399</u>
Change in net position of governmental activities	<u>\$ (56,087)</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, 2015

(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 several 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, 2015

(1) Reporting Entity and Summary of Significant Accounting Policies

B. 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

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, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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. Items not properly included among program revenues are reported instead as general revenues.

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. Accompanying these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements.

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.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2015

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

C. Financial Statement Elements

1. 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.

2. Accounts Receivable

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

3. 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.

4. 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.

5. Net Position/Fund Balances

The financial statements utilize a net position presentation. Net position categories are follows:

- **Net Investment in Capital Assets** – This component of net position 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 Position** – This component of net position consists of constraints placed on net position 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 Position** – This component of net position consists of the net position balance that does not meet the definition of *restricted* or *net investment in capital assets*.

6. 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.

- **Non-spendable 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.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2015

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

C. Financial Statement Elements, continued

6. Fund Equity (continued)

- **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.

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.

7. 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.

8. 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 the Authority’s net position during the reporting period. Actual results could differ from those estimates.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2015

(2) Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2015, consist of the following:

Deposits held with financial institutions	\$	13,056
		<u>13,056</u>
Total cash and cash equivalents	\$	<u>13,056</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 \$25,578 as of September 30, 2015. 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.

(3) Capital Assets

Changes in capital assets for the year were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2015</u>
Land	\$ 11,000,000	-	-	11,000,000
Total capital assets, net	\$ <u>11,000,000</u>			<u>11,000,000</u>

(4) Unrestricted Net Position

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note (1)C.6 for a description of these categories). A detailed schedule of fund balance and their funding composition at September 30, 2015, is as follows:

<u>Fund Balance Category</u>	
Nonspendable:	
Prepaid insurance	\$ 9,335
Unassigned fund balance:	<u>1,703</u>
Total fund balance	<u>\$ 11,038</u>

(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.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2015

(5) Risk Management, continued

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Authority's insurance coverage during the years ending September 30, 2015, 2014, and 2013. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of September 30, 2015, 2014, and 2013.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2015, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 72

In February 2015, the GASB issued Statement No. 72 – Fair Value Measurement and Application. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. 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. 73

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans as pensions that are within their respective scopes.

The requirements of this statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after December 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. 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, 2015

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

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. 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. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2017. 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. 76

In June 2015, the GASB issued Statement No. 75 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP.

This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015, and should be applied retroactively.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2015

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

Governmental Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the Authority’s financial statements.

(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, 2015 have been evaluated for possible adjustment to the financial statements or disclosure as of December 17, 2015, which is the date the financial statements were available to be issued.

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Required Supplementary Information

Los Cerritos Wetlands Authority
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended September 30, 2015

	<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	\$ 337,143	(55,500)	281,643	199,717	81,926
Capital outlay	-	-	-	-	-
Total expenditures/expenses	<u>337,143</u>	<u>(55,500)</u>	<u>281,643</u>	<u>199,717</u>	<u>81,926</u>
Program revenues:					
Contributions - operating	30,000	12,000	42,000	25,000	(17,000)
Capital grant	248,188	(55,500)	192,688	51,223	(141,465)
Total program revenues	<u>278,188</u>	<u>(43,500)</u>	<u>234,688</u>	<u>76,223</u>	<u>(158,465)</u>
General revenues:					
Rental income	47,055	24,900	71,955	25,000	(46,955)
Interest earnings	-	-	-	8	8
Total general revenues	<u>47,055</u>	<u>24,900</u>	<u>71,955</u>	<u>25,008</u>	<u>(46,947)</u>
Total revenues	<u>325,243</u>	<u>(18,600)</u>	<u>306,643</u>	<u>101,231</u>	<u>(205,412)</u>
Excess(deficiency) of revenues over(under) expenditures	<u>(11,900)</u>	<u>36,900</u>	<u>25,000</u>	<u>(98,486)</u>	<u>(287,338)</u>
Fund balance – beginning of year	<u>8,737</u>		<u>8,737</u>	<u>100,919</u>	
Fund balance – end of year	<u>\$ (3,163)</u>		<u>33,737</u>	<u>2,433</u>	

Notes to Required Supplementary Information

(1) Budgets and Budgetary Data

The Authority follows specific instructions in establishing the budgetary data reflected in the financial statements. Each year the Authority's Executive Officer prepares and submits an operating and capital budget to the Board of Directors no later than September. The basis used to prepare the budget does not differ substantially in form from the modified accrual basis of accounting. The adopted budget becomes operative on October 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts.

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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, in accordance with the 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, the financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprises the Authority's basic financial statements, and have issued our report thereon dated December 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

**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*, continued**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 17, 2015