

Los Cerritos Wetlands Authority
Annual Financial Report
For the Fiscal Year Ended September 30, 2010



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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, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These 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. 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 30, 2011, 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.

Management's discussion and analysis and the budgetary comparison information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information or express an opinion on it.

May 30, 2011
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation

Los Cerritos Wetlands Authority
Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2010

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, 2010. 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 increased 0.04% or \$4,810 from \$11,056,762 to \$11,061,572, primarily due to an increase in program revenues of \$7,000, which was offset by an increase in property management expenses of \$16,878.
- The Authority's total revenues increased 17% or \$7,510 from \$45,000 to \$52,510, from the prior year primarily due to an increase in program revenue.
- The Authority's total expenses increased 55% or \$16,878 from \$30,822 to \$47,700, from the prior year primarily due to an increase in property 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, 2010

Condensed Statements of Activities

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Expenses:			
Authority operations	\$ 47,700	30,822	16,878
Total expenses	<u>47,700</u>	<u>30,822</u>	<u>16,878</u>
Revenues:			
Program revenues	27,000	20,000	7,000
General revenues	25,510	25,000	510
Total revenues	<u>52,510</u>	<u>45,000</u>	<u>7,510</u>
Change in net assets	4,810	14,178	(9,368)
Net assets – beginning of year	<u>11,056,762</u>	<u>11,042,584</u>	<u>14,178</u>
Net assets – end of year	<u>\$ 11,061,572</u>	<u>11,056,762</u>	<u>4,810</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 increased by \$4,810 during the fiscal year ended September 30, 2010.

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, 2010, the Authority's General Fund reported a fund balance of \$61,572. 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 \$6,261,422 less than final budgeted expenditures and actual revenues were \$6,243,512 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 \$6,210,000 for the acquisition of land (See Page 15).

Capital Asset Administration

At the end of fiscal year 2010, 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 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2010</u>
Land	\$ 11,000,000	-	-	11,000,000
Total capital assets, net	<u>\$ 11,000,000</u>			<u>11,000,000</u>



Basic Financial Statements

Los Cerritos Wetlands Authority
Statements of Activities
For the Fiscal Year Ended September 30, 2010
(with comparative amounts for the fiscal year ended September 30, 2009)

<i>Governmental Activities:</i>	<u>2010</u>	<u>2009</u>
Expenses:		
Authority operations	\$ 47,700	30,822
Total expenses	<u>47,700</u>	<u>30,822</u>
Program revenues:		
Capital grant	27,000	20,000
Total program revenues	<u>27,000</u>	<u>20,000</u>
General revenues:		
Rental income	25,000	25,000
Interest earnings	10	-
Other	500	-
Total general revenues	<u>25,510</u>	<u>25,000</u>
Total revenues	<u>52,510</u>	<u>45,000</u>
Change in net assets	4,810	14,178
Net assets – beginning of year	<u>11,056,762</u>	<u>11,042,584</u>
Net assets – end of year	<u>\$ 11,061,572</u>	<u>11,056,762</u>

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, 2010

	<u>General Fund</u>	<u>Reclassifications & Eliminations</u>	<u>Statement of Activities</u>
Expenditures/Expenses:			
Authority operations	\$ 47,700	-	47,700
Total expenditures/expenses	<u>47,700</u>	<u>-</u>	<u>47,700</u>
Program revenues:			
Capital grant	27,000	-	27,000
Total program revenues	<u>27,000</u>	<u>-</u>	<u>27,000</u>
General revenues:			
Rental income	25,000	-	25,000
Interest earnings	10	-	10
Other	500	-	500
Total general revenues	<u>25,510</u>	<u>-</u>	<u>25,510</u>
Excess of revenues over expenditures	4,810	-	-
Change in net assets	-	-	4,810
Fund balance/Net assets – beginning of year	56,762	-	11,056,762
Fund balance/Net assets – end of year	<u>\$ 61,572</u>	<u>-</u>	<u>11,061,572</u>

Reconciliation:

Net changes in fund balance of governmental fund	\$ <u>4,810</u>
Change in net assets of governmental activities	\$ <u>4,810</u>

See accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2010

(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

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.

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.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2010

(2) Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2010, consist of the following:

Deposits held with financial institutions	\$	70,072
Total cash and cash equivalents	\$	70,072

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 \$70,072 as of September 30, 2010. 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:

	Balance 2009	Additions	Deletions	Balance 2010
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) 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.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2010, that has an effective date that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 59

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This statement is effective for financial statements for periods beginning after June 15, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Los Cerritos Wetlands Authority
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended September 30, 2010

	<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	\$ 99,122	-	99,122	47,700	51,422
Capital outlay	6,210,000	-	6,210,000	-	6,210,000
Total expenditures/expenses	<u>6,309,122</u>	<u>-</u>	<u>6,309,122</u>	<u>47,700</u>	<u>6,261,422</u>
Program revenues:					
Contributions - operating	36,229	-	36,229	-	(36,229)
Capital grant	6,210,000	-	6,210,000	27,000	(6,183,000)
Total program revenues	<u>6,246,229</u>	<u>-</u>	<u>6,246,229</u>	<u>27,000</u>	<u>(6,219,229)</u>
General revenues:					
Rental income	49,793	-	49,793	25,000	(24,793)
Interest earnings	-	-	-	10	10
Other	-	-	-	500	500
Total general revenues	<u>49,793</u>	<u>-</u>	<u>49,793</u>	<u>25,510</u>	<u>(24,283)</u>
Total revenues	<u>6,296,022</u>	<u>-</u>	<u>6,296,022</u>	<u>52,510</u>	<u>(6,243,512)</u>
Excess(Deficiency) of revenues over(under) expenditures	<u>(13,100)</u>	<u>-</u>	<u>(13,100)</u>	<u>4,810</u>	<u>17,910</u>
Fund balance – beginning of year	<u>21,837</u>		<u>21,837</u>	<u>56,762</u>	
Fund balance – end of year	<u>\$ 8,737</u>		<u>8,737</u>	<u>61,572</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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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, 2010, and have issued our report thereon dated May 30, 2011. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

May 30, 2011
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation