

Los Cerritos Wetlands Authority

Annual Financial Report

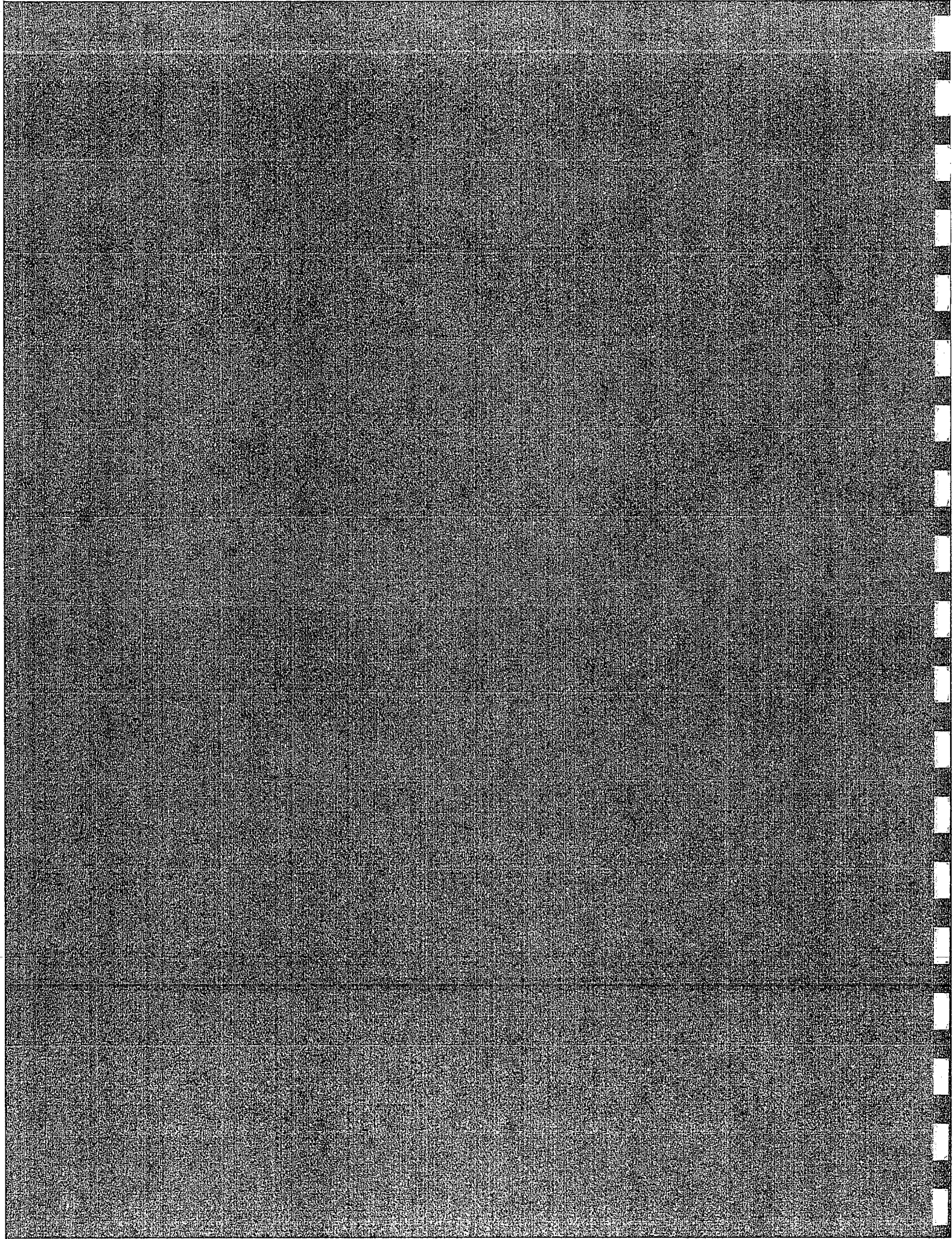
For the Year Ended September 30, 2006

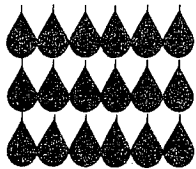
**Los Cerritos Wetlands Authority
Annual Financial Report
For the Year Ended September 30, 2006**

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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, 2006, 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, 2006, 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 April 2, 2007, 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.

April 2, 2007
Cypress, California

Charles Z. Fedak & Company CPAs
An Accountancy Corporation

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Los Cerritos Wetlands Authority
Management's Discussion and Analysis
For the Year Ended September 30, 2006

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, 2006. 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 are \$11,019,860 as of September 30, 2006, as a result of this year's activities.
- The Authority received \$25,000 in rental income this year.

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 Statement 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 Year Ended September 30, 2006

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 \$11,019,860 as of September 30, 2006.

Condensed Statement of Net Assets

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Assets:			
Current assets	\$ 19,860	-	19,860
Capital assets, net	11,000,000	-	11,000,000
Total assets	<u>11,019,860</u>	<u>-</u>	<u>11,019,860</u>
Liabilities:			
Current liabilities	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets:			
Net investment in capital assets	11,000,000	-	11,000,000
Unrestricted	19,860	-	19,860
Total net assets	<u>\$ 11,019,860</u>	<u>-</u>	<u>11,019,860</u>

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Year Ended September 30, 2006

At the end of fiscal year 2006, the Authority shows a positive balance in its unrestricted net assets of \$19,860 that may be utilized in future years.

Condensed Statement of Activities

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Expenses:			
Authority operations	\$ 5,140	-	5,140
Total expenses	<u>5,140</u>	<u>-</u>	<u>5,140</u>
Property contributions	11,000,000	-	11,000,000
General revenues	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total general revenues and property contributions	<u>11,025,000</u>	<u>-</u>	<u>11,025,000</u>
Change in net assets	<u>11,019,860</u>	<u>-</u>	<u>11,019,860</u>
Net assets – beginning of year	-	-	-
Net assets – end of year	<u>\$ 11,019,860</u>	<u>-</u>	<u>11,019,860</u>

The statement of activities shows how the government's net assets changes during the fiscal year. In the case of the Authority, net assets increased by \$11,019,860 during the fiscal year ended September 30, 2006.

The primary reason for the increase in net assets is due to a property contribution of \$11,000,000.

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, 2006, the Authority's General Fund reported a fund balance of \$19,860. An amount of \$19,860 constitutes the Authority's *unreserved undesignated fund balance*, which is available for future Authority expenditures.

General Fund Budgetary Highlights

The final budgeted expenditures for the General Fund at year-end were \$140 less than actual. The variance is principally due to actual expenditures being greater than budgeted. Actual revenues were equal to the anticipated budget of \$25,000. (See Page 15)

Capital Asset Administration

At the end of fiscal year 2006, 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>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2006</u>
Land	\$ -	11,000,000	-	11,000,000
Total capital assets, net	<u>\$ -</u>	<u>11,000,000</u>	<u>-</u>	<u>11,000,000</u>

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Year Ended September 30, 2006

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
Statement of Net Assets
September 30, 2006

<i>Assets</i>	<u>2006</u>
Current assets:	
Cash and cash equivalents (note 2)	\$ 19,860
Total current assets	19,860
Non-current assets:	
Capital assets, net (note 3)	11,000,000
Total assets	<u><u>11,019,860</u></u>
<i>Liabilities and Net Assets</i>	
Current liabilities:	
Accounts payable and accrued expenses	-
Total liabilities	<u><u>-</u></u>
Net assets:	
Net investment in capital assets	11,000,000
Unrestricted	19,860
Total net assets	<u><u>\$ 11,019,860</u></u>

See the accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Statement of Activities
For the Year Ended September 30, 2006

<i>Governmental Activities:</i>	<u>2006</u>
Expenses:	
Authority operations	\$ <u>5,140</u>
Total expenses	<u>5,140</u>
Program revenues:	
Property contributions	<u>11,000,000</u>
Total program revenues	<u>11,000,000</u>
Net program expense	<u>(10,994,860)</u>
General revenues:	
Rental income	<u>25,000</u>
Total general revenues	<u>25,000</u>
Change in net assets	11,019,860
Net assets – beginning of year	<u>-</u>
Net assets – end of year	<u>\$ 11,019,860</u>

See the accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Reconciliation of the Balance Sheet of Governmental
Type Funds to the Statement of Net Assets
September 30, 2006

	<u>General Fund</u>	<u>Reclassifications & Eliminations</u>	<u>Statement of Net Assets</u>
Current assets:			
Cash and cash equivalents	\$ 19,860	-	19,860
Total current assets	19,860	-	19,860
Non-current assets:			
Capital assets, net	-	11,000,000	11,000,000
Total assets	<u>19,860</u>	<u>11,000,000</u>	<u>11,019,860</u>
Current liabilities:			
Accounts payable and accrued expenses	-	-	-
Total liabilities	-	-	-
Fund balance:			
Unreserved:			
Undesignated	19,860	(19,860)	-
Total fund balance	19,860	(19,860)	-
Total liabilities and fund balance	<u>\$ 19,860</u>		
Net assets:			
Net investment in capital assets		11,000,000	11,000,000
Unrestricted		19,860	19,860
Total net assets		<u>\$ 11,019,860</u>	<u>11,019,860</u>

Reconciliation:

Fund balance of governmental funds	\$ <u>19,860</u>
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.	<u>11,000,000</u>
Net assets of governmental activities	<u>\$ 11,019,860</u>

See the 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 Statement of Activities
For the Year Ended September 30, 2006

	<u>General Fund</u>	<u>Reclassifications & Eliminations</u>	<u>Statement of Activities</u>
Expenditures/Expenses:			
Authority operations	\$ 5,140	-	5,140
Total expenditures/expenses	<u>5,140</u>	<u>-</u>	<u>5,140</u>
Program revenues:			
Property contributions	-	11,000,000	11,000,000
Total program revenues	<u>-</u>	<u>11,000,000</u>	<u>11,000,000</u>
Net program expense			<u>(10,994,860)</u>
General revenues:			
Rental income	25,000	-	25,000
Total general revenues	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total revenues	<u>25,000</u>	<u>-</u>	
Excess of revenues over expenditures	19,860	-	-
Change in net assets	-	-	11,019,860
Fund balance/Net assets – beginning of year	-	-	-
Fund balance/Net assets – end of year	<u>\$ 19,860</u>	<u>-</u>	<u>11,019,860</u>

Reconciliation:

Net changes in fund balance of governmental fund	\$ <u>19,860</u>
Amounts reported for governmental activities in the statement of activities is different because:	
Governmental funds do not report property contributions as a current financial resource or revenue related item. However, the statement of activities reports the fair-value of property contributions as a revenue related item.	<u>11,000,000</u>
Change in net assets of governmental activities	\$ <u>11,019,860</u>

See the accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements
September 30, 2006

(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 City of Seal Beach. The agreement established the Los Cerritos Wetlands Authority (the 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 know 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 will cause the conveyance of surface fee interest in the 68 acres to the Authority. The Authority will not acquire the mineral rights or the lessor's interest in the oil and gas lease. The Authority will 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
September 30, 2006

(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
September 30, 2006

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

B. Basis of Accounting and Measurement Focus, continued

The Authority reports the following major governmental fund:

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

C. Implementation of New Governmental Accounting Standards Board Statements

Governmental Accounting Standards Board Statement No. 46

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*. GASB Statement No. 34 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. In the process of applying this provision, some governments have had difficulty interpreting the requirement that those restrictions be "legally enforceable." The confusion over this phrase has resulted in a diversity of practice that has diminished comparability. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel the government to honor. This statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this statement requires governments to disclose the portion of net assets that are restricted by enabling legislation. The Authority has noted no restrictions in enabling legislation applicable in fiscal year 2006.

Governmental Accounting Standards Board Statement No. 47

In September 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for *voluntary* and *involuntary* termination benefits. There were no voluntary or involuntary termination benefits accounted for in fiscal year 2006.

D. Assets, Liabilities and Net Assets

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

In order to maximize investment return, the Authority has contracted with the City of Long Beach Treasurer's Office to act as its fiscal agent (bank) and pool its available cash with that of the City of Long Beach's Pooled Investment Fund (Pool). The Pool is used essentially as a demand deposit account by City funds and entities that participate in the Pool. The City of Long Beach Treasurer's Office makes all investment decisions for the Pool.

Interest income and realized gains and losses arising from such pooled cash and cash equivalents is apportioned to each participating fund balance on the relationship of the individual fund's average daily cash balances to the aggregate pooled cash and cash equivalents. The Authority's share of City of Long Beach's Pooled Investment Fund is stated at a fair value basis.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
September 30, 2006

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

D. Assets, Liabilities and Net Assets, continued

3. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets is equipment used at 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.

4. 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*.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2006, consisted of the following:

Deposits held with the City of Long Beach Pooled Investment Fund	\$ 19,860
Total cash and cash equivalents	\$ <u>19,860</u>

Authorized Deposits and Investments

The Authority is authorized to deposit its cash funds with the City of Long Beach Treasurer's Office Pooled Investment Fund.

Cash with City of Long Beach Pooled Investment Fund

The City of Long Beach's Pooled Investment Fund (Pool) is a pooled investment fund program administered by the City of Long Beach Treasurer's Office, while final investment approval is made by a general investment committee. Investments in the Pool are highly liquid as deposits and withdrawals can be made at anytime without penalty.

The City of Long Beach's bank deposits are either Federally insured or collateralized in accordance with the California Government Code. Pool detail is included in the City of Long Beach's Comprehensive Annual Financial Report (CAFR). Copies of the CAFR may be obtained from the City of Long Beach's Financial Management Department, 333 West Ocean Blvd., Long Beach, CA 90802.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
September 30, 2006

(3) Capital Assets

Changes in capital assets for the year were as follows:

	<u>Balance 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2006</u>
Land	\$ -	11,000,000	-	11,000,000
Total capital assets, net	\$ -			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) Contingencies

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.

(6) Governance

Governing Board

Gary DeLong, City of Long Beach, Chair

Larry McKenney, Rivers and Mountains Conservancy, Vice Chair

Sam Schuchat, State Coastal Conservancy

John Larsen, City of Seal Beach

Required Supplementary Information

Los Cerritos Wetlands Authority
Budgetary Comparison Schedule – General Fund
For the Year Ended September 30, 2006

	<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	\$ 5,000	-	5,000	5,140	(140)
Total expenditures/expenses	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>5,140</u>	<u>(140)</u>
Program revenues:					
Charges for services	-	-	-	-	-
Operating grants	-	-	-	-	-
Total program revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
General revenues:					
Rental income	25,000	-	25,000	25,000	-
Interest earnings	-	-	-	-	-
Other	-	-	-	-	-
Total general revenues	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Total revenues	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>25,000</u>	<u>-</u>
Excess(Deficiency) of revenues over(under) expenditures	<u>20,000</u>	<u>-</u>	<u>20,000</u>	<u>19,860</u>	<u>(140)</u>
Fund balance – beginning of year	-		-	-	
Fund balance – end of year	<u>\$ 20,000</u>		<u>20,000</u>	<u>19,860</u>	

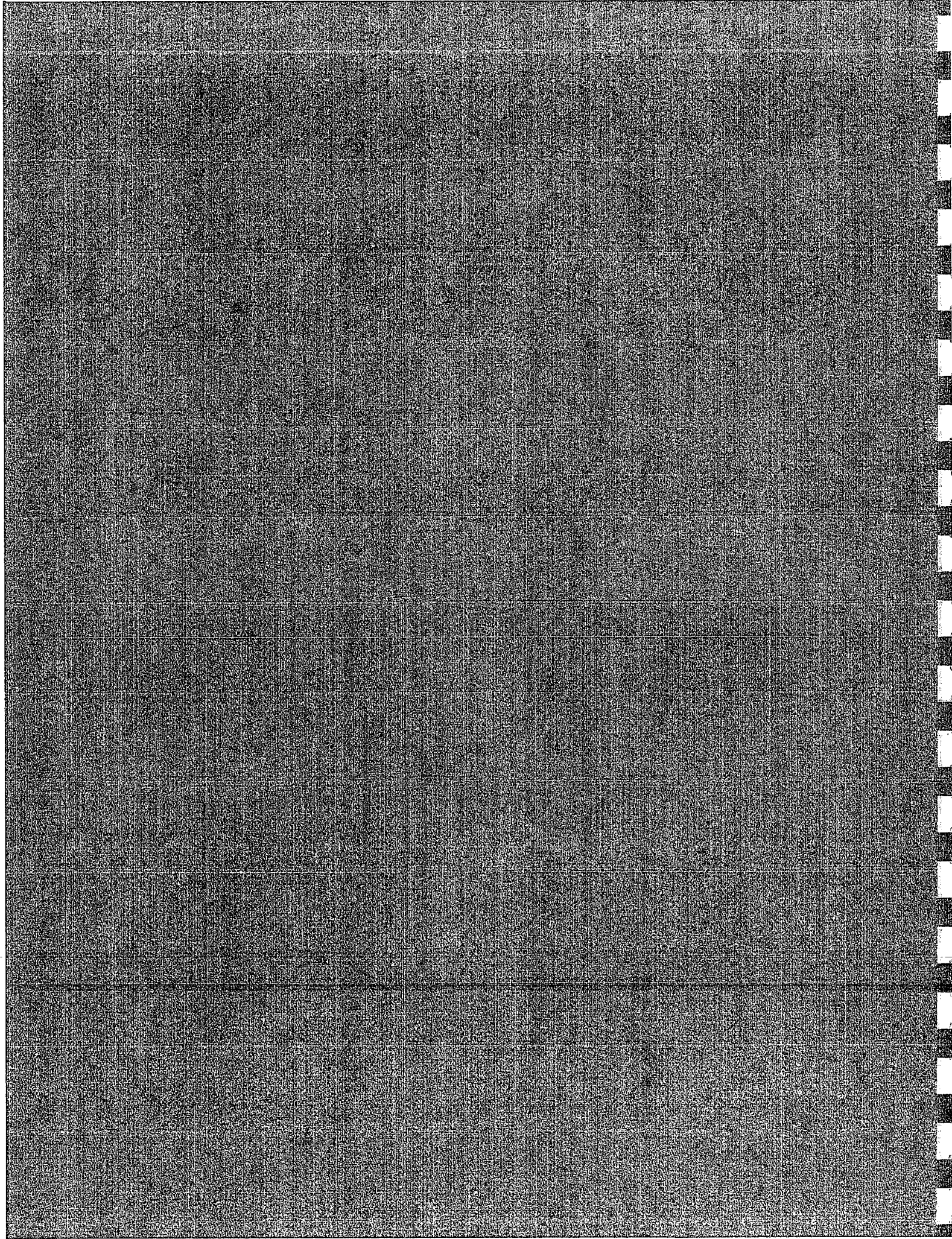
Notes to Required Supplementary Information

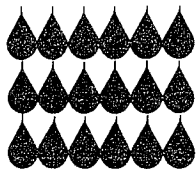
(1) Budgets and Budgetary Data

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 Compliance and Internal Controls





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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting 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 financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2006, and have issued our report thereon dated April 2, 2007. 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.

Compliance

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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

April 2, 2007
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation