

Los Cerritos Wetlands Authority

Date: May 2, 2019

To: Governing Board Members

From: Salian Garcia, Fiscal Manager

Subject: Item 10: Receive and file the FY 17/18 LCWA Financial Compliance Audit and related findings

RECOMMENDATION: That the Los Cerritos Wetlands Authority Government Board receive and file the Fiscal Year 2017/2018 LCWA Financial Compliance and related findings as submitted and detailed in the attached exhibits.

BACKGROUND: Attached are the results of the FY 17/18 WCA Financial Compliance Audit, including the Management Report and Auditor's Communication Letter (Exhibit A) and the Annual Financial Report (Exhibit B).

SUMMARY/FINANCIAL HIGHLIGHTS:

- Fedak & Brown LLP conducted the audit with the cooperation of the City of Long Beach and LCWA staff.
- During the FY 2017/2018, the Authority's net position increased by 0.21% or \$23,749 to \$11,289,593 million. The decrease in net position is primarily related to the Authority's operations.
- Total revenues increased by 107.71% or \$313,683 to \$604,901 primarily due to an increase in program and grant revenue. Total expenses increased 95.17% or \$283,389 to \$581,152 primarily due to an increase in consulting and grant management expenditures from the prior year.
- Capital assets amount to \$11,000,000 with no change from the previous fiscal year.
- The Authority continues to have no long-term debt.
- No material weaknesses or deficiencies in internal control were found.
- No findings noted in the current fiscal year.

FISCAL INFORMATION: Receive and file of the Fiscal Year 2017/2018 audit has no financial impact.

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Los Cerritos Wetlands Authority

Management Report

September 30, 2018



Fedak & Brown LLP

Certified Public Accountants

Los Cerritos Wetlands Authority**Management Report****Table of Contents**

| <u>Item</u> | <u>Page No.</u> |
|--|-----------------|
| General Introduction | 1 |
| Summary of Current Year Comments and Recommendations | 1-2 |
| Status of Comments and Recommendations Made in Previous Years | 2-3 |
| Appendix: | |
| Audit/Finance Committee Letter | 1-3 |
| Attachment: | |
| Schedule of Audit Adjusting Journal Entries | |

Exhibit A
Fedak & Brown LLP
 Certified Public Accountants



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CONFIDENTIAL

Board of Directors
 Los Cerritos Wetlands Authority
 Long Beach, California

Dear Members of the Board:

In planning and performing our audit of the financial statements of Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Our comments, all of which have been discussed with the appropriate members of management, are summarized as follows:

Summary of Current Year Comments and Recommendations

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the Authority are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Summary of Current Year Comments and Recommendations, continued

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the Authority's accounting system to close-out the Authority's year-end trial balance at September 30, 2018.

Status of Comments and Recommendations Made in the Previous Year

Internal Controls, Communication between Authority and City and Record Keeping

During the course of our audit engagement, we noted several adjustments were required to properly reflect the receivable balances for grants and Member Agency contributions at year-end. Discussions with Authority staff revealed that approximately \$33,000 of grants receivable and \$25,000 in Member Agency contributions were not properly recorded within the Authority's accounts. Further inquiries of the Authority and the City's support staff indicated a lack of communication and other procedural controls between the two parties to ensure that the Authority's records are properly stated at year-end. We believe this to be considered a material weakness within the Authority's internal control framework components for information and communication and monitoring. Committee of Sponsoring Organizations (COSO) framework standards define five components of the internal control structure which should exist in every organization. The five components are: control environment, risk assessment, control activities, information and communication, and monitoring.

We recommend that the City consider developing policies and procedures that enable City staff to improve the gathering of information, communication, and coordination of procedures, and reconcile any issues pertaining to the Authorities books and records. This may require the City to amend its current methods and procedures, and dedicate additional staff time towards obtaining, review, inquiry, cataloging supporting grant agreements and amendments. We also recommend that the City require the Authority's personnel prepare and maintain a Schedule of Grant Awards, Contracts and Member Agency Contributions to be reported to the City on a periodic and fiscal year-end basis. We believe the connection of practices noted above will provide the City with a comprehensive and complete internal control structure for the City's management of the Authority's books and records.

Management's Response

We concur with the auditors recommendations. The City's staff is aware of this issue and is currently in the process of taking the proper corrective actions.

Disclosure of Audit Adjustments and Reclassifications

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Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the Authority's accounting system to close-out the Authority's year-end trial balance at September 30, 2017.

Los Cerritos Wetlands Authority
Page 3

This communication is intended solely for the information and use of management and the Board of Directors of the Authority. Though restricted in use, letters issued in connection with an audit of a governmental unit may be a matter of public record.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
March 28, 2019

APPENDIX

Los Cerritos Wetlands Authority

Audit/Finance Committee Letter

September 30, 2018



Exhibit A
Fedak & Brown LLP
Certified Public Accountants

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Board of Directors
Los Cerritos Wetlands Authority
Long Beach, California

We have audited the basic financial statements of the Los Cerritos Wetlands Authority (Authority) for the year ended September 30, 2018, and have issued our report thereon dated March 28, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 1, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Auditor's Responsibility under United States Generally Accepted Auditing Standards

As stated in our Audit Engagement Letter dated October 1, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with oversight of the Governing Board are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve the Governing Board or management of its responsibilities.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the Budgetary Comparison Schedule – General Fund, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involves judgment about the number of transactions to be examined and the areas to be tested.

Our audit includes obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We generally communicate our significant findings at the conclusion of the audit. However, some matters may be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We also communicate any internal control related matters that are required to be communicated under professional standards.

We performed the audit according to the planned scope and timing requirements previously communicated to management at our Audit Entrance Conference.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the basic financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year 2018. We noted no transactions entered into by Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Management's Judgments, Accounting Estimates and Financial Disclosures

Accounting estimates play an integral part in the preparation of basic financial statements by management and are based upon management's knowledge, experience and current judgment(s) about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the position in the basic financial statements is:

Management's estimate of the fair value of cash and cash equivalents is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and cash equivalents in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain basic financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the basic financial statements is:

The disclosure of fair value of cash and cash equivalents in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management as follows:

There were six audit adjustments proposed by the auditor to the original trial balance presented to us to begin our audit. One additional adjustment was proposed by the auditor, but it was not posted to the original trial balance presented to us. A list of the adjusting entries is attached at the end of this report.

Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit

Management Representations

We have requested certain representations from management that are included in the Management Representational Letter to the Auditor dated March 28, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves the application of an accounting principal to the Authority’s basic financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority’s auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedule – General Fund, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Conclusion

We appreciate the cooperation extended us by Hannah Morgan, Performance Audit Manager, Michael Carrigg, Senior Accountant, Jennifer Mota, Accounting Technician at the City of Long Beach and Salian Garcia, Fiscal Manager at the Los Cerritos Wetlands Authority, in the performance of our audit testwork.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Authority.

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 the specified, parties. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California
March 28, 2019

Los Cerritos Wetlands Authority
Schedule of Audit Adjusting Journal Entries
September 30, 2018

| Account | Description | Debit | Credit |
|--|--|--------------------------|--------------------------|
| Adjusting Journal Entries | | | |
| Adjusting Journal Entries JE # 1 | | | |
| AJE - To reclassify accounts receivables based on propriety of receivable type at September | | | |
| 126 | Receivables - Member Agencies | 15,000.00 | |
| 127 | Grants Receivable | 289,868.64 | |
| 125 | Accounts Receivable - Current | | 15,000.00 |
| 125 | Accounts Receivable - Current | | 289,868.64 |
| Total | | <u>304,868.64</u> | <u>304,868.64</u> |
| Adjusting Journal Entries JE # 2 | | | |
| AJE - To recognize the land option consideration income at September 30, 2018. | | | |
| 311 | Deposit-Land Option | 100,000.00 | |
| 457 | Land Option Consideration Income | | 100,000.00 |
| Total | | <u>100,000.00</u> | <u>100,000.00</u> |
| Adjusting Journal Entries JE # 3 | | | |
| RJE - To reclass land title transfer related charges from consulting fees to a specific expenditure account for propriety and budgeting at Septmebr 30, 2018. | | | |
| 554 | Land Transfer Agreement Expense | 14,512.50 | |
| 501 | Consulting Fees | | 14,512.50 |
| Total | | <u>14,512.50</u> | <u>14,512.50</u> |
| Adjusting Journal Entries JE # 4 | | | |
| AJE - To reclassify Atkinson deposit to payables due to termination of lease agreement prior to fiscal year end. | | | |
| 310 | Security Deposit | 2,400.00 | |
| 302 | Accounts Payable | | 2,400.00 |
| Total | | <u>2,400.00</u> | <u>2,400.00</u> |
| Adjusting Journal Entries JE # 5 | | | |
| RJE - Reclassify miscellaneous income related to Tarplant Mitigation revenue to specific revenue account as this revenue is budgeted for ongoing operations at September 30, 2018. | | | |
| 453 | Miscellaneous Income | 101,175.86 | |
| 403 | Grant Income - Tarplant Mitigation | | 101,175.86 |
| Total | | <u>101,175.86</u> | <u>101,175.86</u> |
| Adjusting Journal Entries JE # 6 | | | |
| AJE - to record an allowance for doubtful accounts for JPA dues from Coastal Conservancy and Legal Expense reimbursement for the Rivers and Mountains Conservancy at September 30, 2018. | | | |
| 599 | Bad debt expense | 25,000.00 | |
| 129 | Allowance for doubtful accounts | | 25,000.00 |
| Total | | <u>25,000.00</u> | <u>25,000.00</u> |
| | Total Adjusting Journal Entries | <u>547,957.00</u> | <u>547,957.00</u> |
| | Total All Journal Entries | <u>547,957.00</u> | <u>547,957.00</u> |

Legend:

| | |
|-----|---------------------------------------|
| AJE | Audit adjusting journal entry |
| RJE | Reclassifying adjusting journal entry |



Los Cerritos Wetlands Authority

Annual Financial Report

For the Fiscal Year Ended September 30, 2018



Los Cerritos Wetlands Authority

Our Mission Statement

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

Our Governing Board

Members

City of Long Beach

Chair: Suzie Price

Alternate: Daryl Supernaw

State Coastal Conservancy

Vice-chair: Sam Schuchat

Alternate: Joan Cardellino

City of Seal Beach

Member: Schelly Sustarsic

Alternate: Mike Varipapa

Rivers and Mountains Conservancy

Member: Roberto Uranga

Alternate: Vacant

Los Cerritos Wetlands Authority
Annual Financial Report
For the Fiscal Year Ended September 30, 2018

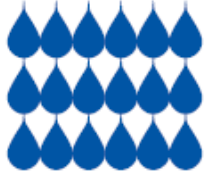
**Los Cerritos Wetlands Authority
Annual Financial Report
For the Fiscal Year Ended September 30, 2018**

Table of Contents

| | <u>Page No.</u> |
|---|------------------------|
| Table of Contents | i |
| Financial Section | |
| Independent Auditor's Report | 1-2 |
| Management's Discussion and Analysis | 3-6 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 7 |
| Statement of Activities | 8 |
| Fund Financial Statements: | |
| Reconciliation of the Balance Sheet of Governmental Type Funds to the Statement of Net Position | 9 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Type Funds to the Statement of Activities | 10 |
| Notes to the Basic Financial Statements | 11-20 |
| Required Supplementary Information Section | |
| Budgetary Comparison Schedule – General Fund | 21 |
| Notes to Required Supplementary Information | 21 |
| Report on Internal Controls and Compliance | |
| Independent Auditor's Report on Internal Controls and Compliance Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 22-23 |

Financial Section

Exhibit B
Fedak & Brown LLP
 Certified Public Accountants



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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, 2018, 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 audit 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.

Opinion

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, 2018, 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 21 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 March 28, 2019, 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 22 and 23.



Fedak & Brown LLP
Cypress, California
March 28, 2019

Los Cerritos Wetlands Authority
Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2018

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, 2018. 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 increased 0.21% or \$23,749 from \$11,265,844 to \$11,289,593 as a result of this year's operations.
- The Authority's total revenues increased 107.71% or \$313,683 from \$291,218 to \$604,901, primarily due to increases of \$214,558 state and county grant income and \$101,176 in tarplant mitigation grant income, which were offset by a decrease of \$10,519 in miscellaneous income from prior year.
- The Authority's total expenses increased 95.17% or \$283,389 from \$297,763 to \$581,152, primarily due to increases of \$232,748 in consulting fees and \$40,081 in grant management expenses from prior year.

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, 2018

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 20.

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 \$11,289,593 as of September 30, 2018.

Condensed Statements of Net Position

| | 2018 | 2017 | Change |
|----------------------------------|----------------------|-------------------|----------------|
| Assets: | | | |
| Current assets | \$ 472,361 | 451,848 | 20,513 |
| Capital assets, net | 11,000,000 | 11,000,000 | - |
| Total assets | 11,472,361 | 11,451,848 | 20,513 |
| Liabilities: | | | |
| Current liabilities | 182,768 | 186,004 | (3,236) |
| Total liabilities | 182,768 | 186,004 | (3,236) |
| Net position: | | | |
| Net investment in capital assets | 11,000,000 | 11,000,000 | - |
| Unrestricted | 289,593 | 265,844 | 23,749 |
| Total net position | \$ 11,289,593 | 11,265,844 | 23,749 |

At the end of fiscal year 2018, the Authority shows a positive balance in its unrestricted net position of \$289,593.

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Fiscal Year Ended September 30, 2018

Government-wide Financial Analysis, continued

Condensed Statements of Activities

| <i>Governmental Activities</i> | <u>2018</u> | <u>2017</u> | <u>Change</u> |
|----------------------------------|----------------------|-------------------|----------------|
| Expenses: | | | |
| Authority operations | \$ 581,152 | 297,763 | 283,389 |
| Total expenses | <u>581,152</u> | <u>297,763</u> | <u>283,389</u> |
| Revenues: | | | |
| Program revenues | 440,403 | 119,669 | 320,734 |
| General revenues | 164,498 | 171,549 | (7,051) |
| Total revenues | <u>604,901</u> | <u>291,218</u> | <u>313,683</u> |
| Change in net position | 23,749 | (6,545) | 30,294 |
| Net position – beginning of year | <u>11,265,844</u> | <u>11,272,389</u> | <u>(6,545)</u> |
| Net position – end of year | <u>\$ 11,289,593</u> | <u>11,265,844</u> | <u>23,749</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 increased by \$23,749 during the fiscal year ended September 30, 2018.

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, 2018, the Authority's General Fund reported a fund balance of \$289,593. Of the fund balance reported an amount of \$8,135 is designated as *nonspendable* as it has already been spent towards prepaid insurance. The remaining balance of \$281,458 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 \$1,085,965 less than final budgeted expenditures and actual revenues were \$1,062,216 less than final budgeted revenues. This was principally due to lower than anticipated grant funding in the amount of \$1,150,226 from state, county and private agency sources and operating contributions of \$63,394, which were offset by higher than anticipated general revenues in the amount of \$100,000 from land option consideration income.

Los Cerritos Wetlands Authority
Management's Discussion and Analysis, continued
For the Fiscal Year Ended September 30, 2018

Capital Asset Administration

At the end of fiscal year 2018, 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>2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>2018</u> |
|---------------------------|-------------------------------|------------------|------------------|-------------------------------|
| Land | \$ 11,000,000 | - | - | 11,000,000 |
| Total capital assets, net | \$ 11,000,000 | | | 11,000,000 |

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

Exhibit B
Los Cerritos Wetlands Authority
Statement of Net Position
September 30, 2018

Item 10

| | 2018 |
|--|---------------|
| Current assets: | |
| Cash and cash equivalents (note 2) | \$ 110,072 |
| Accounts receivable, net of allowance for doubtful accounts (note 3) | 354,154 |
| Prepaid insurance | 8,135 |
| Total current assets | 472,361 |
| Non-current assets: | |
| Capital assets, net (note 4) | 11,000,000 |
| Total assets | 11,472,361 |
| Current liabilities: | |
| Accounts payable | 180,868 |
| Security deposit | 1,900 |
| Total current liabilities | 182,768 |
| Total liabilities | 182,768 |
| Net position: (note 5) | |
| Net investment in capital assets | 11,000,000 |
| Unrestricted | 289,593 |
| Total net position | \$ 11,289,593 |

See the accompanying notes to the basic financial statements

Los Cerritos Wetlands Authority
Statement of Activities
For the Fiscal Year Ended September 30, 2018

| <i>Governmental Activities:</i> | <u>2018</u> |
|---|----------------------|
| Expenses: | |
| Authority operations | \$ <u>581,152</u> |
| Total expenses | <u>581,152</u> |
| Program revenues: | |
| Contributions – operating | 25,000 |
| Capital grants – state and county | 314,227 |
| Capital contributions – private agency | <u>101,176</u> |
| Total program revenues | <u>440,403</u> |
| Net program expense | <u>140,749</u> |
| General revenues: | |
| Rental income | 61,480 |
| Land option (note 6) | 100,000 |
| Interest earnings | 18 |
| Miscellaneous income | <u>3,000</u> |
| Total general revenues | <u>164,498</u> |
| Change in net position | 23,749 |
| Net position – beginning of year | <u>11,265,844</u> |
| Net position – end of year | <u>\$ 11,289,593</u> |

See 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 Position
September 30, 2018

| | General Fund | Reclassifications & Eliminations | Statement of Net Position |
|---|-------------------------|---|--------------------------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 110,072 | - | 110,072 |
| Accounts receivable, net | 354,154 | - | 354,154 |
| Prepaid insurance | 8,135 | - | 8,135 |
| Total current assets | 472,361 | - | 472,361 |
| Non-current assets: | | | |
| Capital assets, net | - | 11,000,000 | 11,000,000 |
| Total assets | \$ 472,361 | 11,000,000 | 11,472,361 |
| Current liabilities: | | | |
| Accounts payable | \$ 180,868 | - | 180,868 |
| Security deposit | 1,900 | - | 1,900 |
| Total current liabilities | 182,768 | - | 182,768 |
| Total liabilities | 182,768 | - | 182,768 |
| Fund balance: (note 4) | | | |
| Nonspendable | 8,135 | (8,135) | - |
| Unassigned | 281,458 | (281,458) | - |
| Total fund balance | 289,593 | (289,593) | - |
| Total liabilities and fund balance | \$ 472,361 | | |
| Net position: | | | |
| Net investment in capital assets | | 11,000,000 | 11,000,000 |
| Unrestricted | | 289,593 | 289,593 |
| Total net position | | \$ 11,289,593 | 11,289,593 |

Reconciliation:

| | |
|---|---------------|
| Fund balance of governmental funds | \$ 289,593 |
| Amounts reported for governmental activities in the statement of net position is different because: | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. | 11,000,000 |
| Net position of governmental activities | \$ 11,289,593 |

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 Statement of Activities
For the Fiscal Year Ended September 30, 2018

| | <u>General Fund</u> | <u>Reclassifications & Eliminations</u> | <u>Statement of Activities</u> |
|--|-------------------------|---|------------------------------------|
| Expenditures/Expenses: | | | |
| Authority operations | \$ 581,152 | - | 581,152 |
| Total expenditures/expenses | <u>581,152</u> | <u>-</u> | <u>581,152</u> |
| Program revenues: | | | |
| Contributions – operating | 25,000 | - | 25,000 |
| Capital grant – state and county | 314,227 | - | 314,227 |
| Capital grant – private agency | 101,176 | - | 101,176 |
| Total program revenues | <u>440,403</u> | <u>-</u> | <u>440,403</u> |
| Net program expense | | | <u>140,749</u> |
| General revenues: | | | |
| Rental income | 61,480 | - | 61,480 |
| Land option | 100,000 | - | 100,000 |
| Interest earnings | 18 | - | 18 |
| Miscellaneous income | 3,000 | - | 3,000 |
| Total general revenues | <u>164,498</u> | <u>-</u> | <u>164,498</u> |
| Total revenues | <u>604,901</u> | <u>-</u> | |
| Excess of revenues over expenditures | 23,749 | (23,749) | - |
| Change in net position | - | 23,749 | 23,749 |
| Fund deficit/Net position – beginning of year | <u>265,844</u> | <u>-</u> | <u>11,265,844</u> |
| Fund balance/Net position | <u>\$ 289,593</u> | <u>-</u> | <u>11,289,593</u> |

Reconciliation:

| | |
|---|------------------|
| Net changes in fund balance of governmental fund | \$ <u>23,749</u> |
| Change in net position of governmental activities | \$ <u>23,749</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, 2018

(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, 2018

(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, 2018

(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 and Allowance for Doubtful Accounts

The Authority extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the Authority uses the allowance method for the reservation and write-off of those accounts.

3. Prepaids

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, 2018

(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, 2018

(1) Reporting Entity and Summary of Significant Accounting Policies, continued**C. Financial Statement Elements, continued****9. Reclassification**

The District has reclassified certain prior year information to conform to current year presentation.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2018, consist of the following:

| | |
|---|-------------------|
| Deposits held with financial institutions | \$ <u>110,072</u> |
| Total cash and cash equivalents | \$ <u>110,072</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 \$120,997 as of September 30, 2018. 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) Accounts Receivable

Accounts receivable, net of allowance for doubtful accounts as of September 30, 2018, consist of the following:

| | |
|---------------------------------------|-------------------|
| Accounts receivable | \$ 74,285 |
| Accounts receivable – member agencies | 15,000 |
| Accounts receivable – grants | <u>289,869</u> |
| Subtotal accounts receivable | 379,154 |
| Allowance for doubtful accounts | <u>(25,000)</u> |
| Total accounts receivable, net | \$ <u>354,154</u> |

(4) Capital Assets

Changes in capital assets for the year were as follows:

| | <u>Balance</u> <u>2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>2018</u> |
|---------------------------|-------------------------------|------------------|------------------|-------------------------------|
| Land | \$ <u>11,000,000</u> | <u>-</u> | <u>-</u> | <u>11,000,000</u> |
| Total capital assets, net | \$ <u>11,000,000</u> | | | <u>11,000,000</u> |

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2018

(5) 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, 2018, is as follows:

| <u>Fund Balance Category</u> | |
|------------------------------|-------------------|
| Nonspendable: | |
| Prepaid insurance | \$ 8,135 |
| Unassigned fund balance: | <u>281,458</u> |
| Total fund balance | <u>\$ 289,593</u> |

(6) Land Option and Exchange Agreement

On September 27, 2016, the Authority entered into a land exchange option agreement with Los Cerritos Wetlands, LLC (the LLC). Terms of the agreement call for non-refundable consideration in the amount of \$300,000 to be paid to the Authority for an initial option term of 4 years, with an optional term of 4 years thereafter. The agreement provides a right of termination clause in the event the LLC determines to terminate the agreement. Upon termination, the agreement calls for the Authority to refund the LLC \$200,000 within the first year of the agreement, or \$100,000 if exercised within second year of the agreement. At September 30, 2018, the Authority's unearned revenue amounted to \$0 and recognized \$100,000 as income.

At September 30, 2018, the Authority and the LLC had not exercised the Land Exchange Agreement option.

(7) 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.

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, 2018, 2017, and 2016. 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, 2018, 2017, and 2016.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2018

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2018, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) and requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of the implementation of this Statement to the District'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, 2018

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

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The impact of the implementation of this Statement to the District'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, 2018

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

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

Los Cerritos Wetlands Authority
Notes to the Basic Financial Statements, continued
For the Fiscal Year Ended September 30, 2018

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

Governmental Accounting Standards Board Statement No. 90, continued

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(9) Contingencies

Grant Awards

Grant funds received by the Authority are subject to audit by the grantor agencies. Such an 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.

(10) Subsequent Events

Events occurring after September 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of March 28, 2019, 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, 2018

| | <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 | \$ 147,100 | - | 147,100 | 6,619 | 140,481 |
| Bad debt expense | - | - | - | 25,000 | (25,000) |
| Capital outlay | <u>1,520,017</u> | <u>-</u> | <u>1,520,017</u> | <u>549,533</u> | <u>970,484</u> |
| Total expenditures/expenses | <u>1,667,117</u> | <u>-</u> | <u>1,667,117</u> | <u>581,152</u> | <u>1,085,965</u> |
| Program revenues: | | | | | |
| Contributions – operating | 88,394 | - | 88,394 | 25,000 | (63,394) |
| Capital grant – state and county | 1,464,453 | - | 1,464,453 | 314,227 | (1,150,226) |
| Capital grant – private agency | <u>34,330</u> | <u>-</u> | <u>34,330</u> | <u>101,176</u> | <u>66,846</u> |
| Total program revenues | <u>1,587,177</u> | <u>-</u> | <u>1,587,177</u> | <u>440,403</u> | <u>(1,146,774)</u> |
| General revenues: | | | | | |
| Rental income | 79,940 | - | 79,940 | 61,480 | (18,460) |
| Land option | - | - | - | 100,000 | 100,000 |
| Interest earnings | - | - | - | 18 | 18 |
| Miscellaneous income | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,000</u> | <u>3,000</u> |
| Total general revenues | <u>79,940</u> | <u>-</u> | <u>79,940</u> | <u>164,498</u> | <u>84,558</u> |
| Total revenues | <u>1,667,117</u> | <u>-</u> | <u>1,667,117</u> | <u>604,901</u> | <u>(1,062,216)</u> |
| Excess(deficiency) of revenues over(under) expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>23,749</u> | <u>(2,148,181)</u> |
| Fund balance – beginning of year | <u>8,737</u> | | <u>8,737</u> | <u>265,844</u> | |
| Fund balance – end of year | <u>\$ 8,737</u> | | <u>8,737</u> | <u>289,593</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, 2018, and the related notes to the financial statements, which collectively comprises the Authority's basic financial statements, and have issued our report thereon dated March 28, 2019.

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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
March 28, 2019