

# **SANTA MONICA BAY RESTORATION AUTHORITY**

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## **FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2015**



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# SANTA MONICA BAY RESTORATION AUTHORITY

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2015

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Santa Monica Bay Restoration Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Santa Monica Bay Restoration Authority (Authority) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The Authority's 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 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 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 financial position of the Authority as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and the Required Supplementary Information on pages 3 through 5 and 18 through 21, respectively 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 June 7, 2016 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.

*BCA Watson Rice, LLP*

Torrance, California

June 7, 2016

# **SANTA MONICA BAY RESTORATION AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED SEPTEMBER 30, 2015**

The Management's Discussion and Analysis (MD&A) of the financial activities of the Santa Monica Bay Restoration Authority (Authority) provides a narrative overview of the Authority's financial activities for the fiscal year ended September 30, 2015. Please read it in conjunction with the accompanying basic financial statements, footnotes and supplementary information.

### **Financial Highlights**

- The total assets of the Authority as of September 30, 2015 is \$267,199.
- Revenues mainly consisted of federal and state grants. The total operating revenue of the Authority as of September 30, 2015 is \$249,963.
- The net position of the Authority as of September 30, 2015 is \$9,784.
- The Authority has no short or long-term debt.
- The Authority has capital assets in the amount of \$7,037.

### **Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements, which are comprised of the following three components:

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

This report also includes other supplementary information in addition to the basic financial statements.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all Authority assets reduced by liabilities, which represent net position. Over time, increases and decreases in net position may serve as an indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information that indicates how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that affect cash flows in future periods, for example, accrued but unpaid contract and professional fees.

# **SANTA MONICA BAY RESTORATION AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED SEPTEMBER 30, 2015**

The government-wide financial statements report the following different types of programs or activities:

Governmental Activities – All of the Authority's programs during fiscal year 2014-2015 are reported under this category.

Business-type Activities – The Authority has no business-type activities during fiscal year 2014-2015.

### **Fund Financial Statements**

The fund financial statements contain information regarding major individual funds. A fund is a fiscal and accounting entity with a balanced set of accounts. The Authority uses separate funds to ensure compliance with fiscal and legal requirements. The Authority's funds are all classified as governmental funds during fiscal year 2014-2015.

Governmental Funds - These funds are used to account for essentially the same services that were previously described as governmental activities above. However, the 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 the Authority'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 Authority's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

### **Notes to the Basic Financial Statements**

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

### **Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary schedules in the format of the basic financial statements, showing the activity for each fund.

### **Financial Statement Analysis**

Operating revenues consist primarily of federal and state grants. Operating expenses consist primarily of contract and professional service fees.

**SANTA MONICA BAY RESTORATION AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Capital Assets**

As of September 30, 2015, the Authority had capital assets of \$7,037, consisting of data probes equipment.

**Economic Factors**

**New Funding**

In addition to the existing three funding sources, the Authority is preparing for a new fourth funding source. In the works is a potential partnership with the City of Los Angeles' Los Angeles World Airports (LAWA) for a three-year project partnership. This partnership will increase the Authority's annual budget by approximately 20% over three years.

Programmatically and financially, this new partnership will bring about the following benefits:

- An annual budget increase of approximately 20%
- Research opportunities
- Community involvement
- Environmental awareness and stewardship
- Youth and workforce development
- Rare species and habitat preservation and enhancement
- Maintenance of the dunce facility
- Safe airport operations
- Cooperative and resource sharing approach to the project

**Grant Renewal**

The existing Boater Education Grant from the State Department of Boating and Waterways to the Authority ends on December 31, 2016. However, it is expected that a new grant will be awarded beginning January 2017, due to the great success of the project. The funding level is expected to be similar to the current grant funding level.

**Contacting the Authority's Financial Management**

This financial report is designed to provide our citizens and other interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the County of Los Angeles, Department of Auditor-Controller, 500 West Temple Street, Room 525, Los Angeles, CA 90012.

**SANTA MONICA BAY RESTORATION AUTHORITY**

STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments (Note 3)	\$ 79,267
Interest receivable	23
Accounts receivable (Note 4)	180,872
Capital assets (Note 5)	<u>7,037</u>
Total Assets	<u>\$ 267,199</u>
<b>LIABILITIES</b>	
Accrued expenses	<u>\$ 257,415</u>
Total Liabilities	<u>257,415</u>
<b>NET POSITION</b>	
Net investment in capital assets	7,037
Unrestricted	<u>2,747</u>
Total Net Position	<u>\$ 9,784</u>

See accompanying notes to the basic financial statements.

**SANTA MONICA BAY RESTORATION AUTHORITY**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Expenses	Program Revenues Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position Governmental Activities
<u>Functions/Programs</u>			
Governmental activities -			
Santa Monica Bay restoration programs	\$ 347,197	\$ 249,494	\$ (97,703)
Total	\$ 347,197	\$ 249,494	(97,703)
		General revenues:	
		Investment income	469
		Change in net position	(97,234)
		Net position, beginning of year	107,018
		Net position, end of year	\$ 9,784

See accompanying notes to the basic financial statements.

**SANTA MONICA BAY RESTORATION AUTHORITY**

**BALANCE SHEET  
SEPTEMBER 30, 2015**

**Assets**

Cash and investments (Note 3)	\$	79,267
Interest receivable		23
Accounts receivable (Note 4)		<u>180,872</u>
Total assets	\$	<u><u>260,162</u></u>

**Liabilities and Fund Balance**

Accrued expenses	\$	<u>257,415</u>
Total liabilities		<u>257,415</u>
Fund balance – unassigned		<u>2,747</u>
Total liabilities and fund balance	\$	<u><u>260,162</u></u>

See accompanying notes to the basic financial statements.

**SANTA MONICA BAY RESTORATION AUTHORITY**

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE  
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015**

Fund balance – Santa Monica Bay Restoration Programs (page 8)	\$ 2,747
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental balance sheet.	7,037
Net Position of Governmental Activities (page 6)	<u>\$ 9,784</u>

See accompanying notes to the basic financial statements.

**SANTA MONICA BAY RESTORATION AUTHORITY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Revenues

Federal grants	\$ 71,637
State grants	161,522
Contributions from other governmental agencies	16,335
Interest income	469
Total revenues	<u>249,963</u>

Expenditures

Capital expenditures – equipment	8,279
Contract and professional services	298,807
Utilities, supplies and other charges	47,148
Total expenditures	<u>354,234</u>

Deficiency of revenues over expenditures (104,271)

Fund balance, beginning of year 107,018

Fund balance, end of year \$ 2,747

See accompanying notes to the basic financial statements.

**SANTA MONICA BAY RESTORATION AUTHORITY**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE  
GOVERNMENTAL STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2015**

Net Change in Fund Balance – Governmental Funds (page 10) \$ (104,271)

Amounts reported for governmental statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the governmental statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Additions to capital assets amounted to \$8,279 in the current period. 8,279

Depreciation expense on capital assets is reported in the governmental statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (1,242)

Change in Net Position of Governmental Activities (page 7) \$ (97,234)

See accompanying notes to the basic financial statements.

# SANTA MONICA BAY RESTORATION AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2015

### NOTE 1 – REPORTING ENTITY

The Santa Monica Bay Restoration Authority (Authority), a separate public entity, was established in March 2004 through a Joint Powers Agreement (JPA) between the Santa Monica Bay Restoration Commission (Commission) and the Los Angeles County Flood Control District (District) to develop and facilitate programs for the protection and enhancement of the natural resources of the Santa Monica Bay Watersheds and the Santa Monica Bay consistent with the goals and responsibilities of the Commission and District.

The Authority is governed by a five voting member Board of Directors as follows:

- Three voting members of the Governing Board of the Commission appointed by the Governing Board of the Commission, none of whom may be a member appointed by the Los Angeles County Board of Supervisors.
- The Director of the Los Angeles County Department of Public Works or his/her designee.
- The member of the Los Angeles County Board of Supervisors of the Los Angeles County Flood Control District, or his/her designee, who has been appointed to the Governing Board of the Commission.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basic Financial Statements

In accordance with Governmental Accounting Standards Board (GASB) 34, the basic financial statements consist of the following:

- Government-wide financial statements;
- Fund financial statements; and
- Notes to the basic financial statements.

#### Government-wide Financial Statements

The statement of net position and statement of activities display the financial activities of the Authority. These statements present the governmental activities of the Authority.

The statement of activities presents a comparison between direct expenses and program revenues for the Authority's governmental activities. Direct expenses are those that are specifically associated with a program and, therefore, are clearly identifiable to a particular program. Program revenues include capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented instead as general revenues.

Net position is classified into the following three components: 1) net investment in capital assets; 2) restricted and 3) unrestricted. At September 30, 2015, the net investment in capital assets net position balance was \$7,037 and the unrestricted net position balance was \$2,747.

# SANTA MONICA BAY RESTORATION AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2015

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fund Accounting

The accounts of the Authority are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, and fund balance segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Government resources are allocated to and for individual funds based on the purpose for which they are spent and means by which spending activities are controlled.

The Authority's Operating Fund is available for any authorized purpose and is used to account for and report all financial resources not accounted for and reported in another fund. Beginning in fiscal year 2013, the Authority established a SMBRA EPA Grant Fund in addition to the Operating Fund. The funding for both funds comes primarily from federal and state grants through the Environmental Protection Agency and the State Department of Boating and Waterways.

#### Basis of Accounting

Both the Operating Fund and SMBRA EPA Grant Fund are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

#### Fund Balances

In the fund financial statements, the governmental funds report the classification of fund balance in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." The reported fund balances are categorized as non-spendable, restricted, committed, assigned, or unassigned based on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable Fund Balance – amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories and long-term notes receivable.

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 or enabling legislation. Restrictions may effectively be changed or lifted only by changing the condition of the constraint.

# SANTA MONICA BAY RESTORATION AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2015

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Fund Balances (Continued)

Committed Fund Balance – amounts that can only be used for the specific purposes determined by a formal action of the Authority’s highest level of decision-making authority, the Authority’s Board. Commitments may be changed or lifted only by the Authority taking the same formal action that imposed the constraint originally. The underlying action that imposed the limitation needs to occur no later than the close of the fiscal year.

Assigned Fund Balance – amounts intended to be used by the Authority for specific purposes that are neither restricted nor committed. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.

Unassigned Fund Balance – the residual classification for the Authority’s General Fund that includes amounts not contained in 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 Authority’s Board establishes, modifies, or rescinds fund balance commitments and assignments through the adoption of the budget and subsequent amendments that occur throughout the fiscal year.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

#### Revenue

Recognition of revenues arising from non-exchange transactions, which include revenues from grants and contributions, is based on the primary characteristic from which the revenues are received by the Authority. Grant funds are considered earned to the extent of expenditures made under the provisions of the grants.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

#### New Pronouncements

The following summarizes Governmental Accounting Standards Board (GASB) pronouncements and their impact, if any, on the financial statements.

# SANTA MONICA BAY RESTORATION AUTHORITY

## NOTES TO THE BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2015

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### New Pronouncements (Continued)

For the fiscal year ended September 30, 2015, the Authority implemented GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement is effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Implementation of the GASB Statement No. 69 did not have an impact on the Authority's financial statements for the fiscal year ended September 30, 2015.

In February 2015, GASB issued Statement No. 72 "*Fair Value Measurement and Application*", which prescribes how state and local governments should define and measure fair value. It also prescribes which assets and liabilities should be measured at fair value, and expands disclosures related to fair value measurements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. The Authority plans to implement the new reporting requirement of GASB 72 for fiscal year ended September 30, 2016. The implementation of GASB 72 did not have an impact on the Authority's basic financial statements.

In June 2015, GASB issued Statement No. 76 "*The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments*". This Statement reduces the GAAP hierarchy from four categories under GASB Statement No. 55 to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. The Authority implemented the new reporting requirement of GASB 76 for fiscal year ended September 30, 2015. The implementation of GASB 76 did not have an impact on the Authority's basic financial statements.

### NOTE 3 - CASH AND INVESTMENTS

The Authority's cash and investments are pooled and invested by the Los Angeles County Treasurer and Tax Collector and are subject to withdrawal from the pool upon demand. The Authority's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on the fund's average cash and investment balance, as provided by the California Government Code Section 53647. The Authority's cash and investment balances as of September 30, 2015 is \$79,267.

Investment policies and associated risk factors applicable to the Authority are included in the County of Los Angeles' Comprehensive Annual Financial Report for the year ended June 30, 2015.

### NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivables of \$180,872 as of September 30, 2015 represents receivables from the California Department of Parks and Recreation for allowable Department of Parks and Recreation expenditures.

**SANTA MONICA BAY RESTORATION AUTHORITY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015**

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2015 was as follows:

	Balance at October 1, 2014	Increases	Decreases	Balance at September 30, 2015
Governmental activities:				
Capital asset being depreciated				
Data probes equipment	\$ -	\$ 8,279	\$ -	\$ 8,279
Accumulated depreciation		(1,242)		(1,242)
Net capital assets	<u>\$ -</u>	<u>\$ 7,037</u>	<u>\$ -</u>	<u>\$ 7,037</u>

The above equipment is used for the Malibu Lagoon restoration and enhancement project. Depreciation expense for the year ended September 30, 2015 was \$1,242.

**NOTE 6 – CONTINGENT LIABILITIES**

The Authority is aware of potential claims that may be filed against them. The outcome of these matters is not presently determinable, but the resolution of these matters is not expected to have a significant impact on the financial condition of the Authority.

**NOTE 7 – SUBSEQUENT EVENTS**

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through June 7, 2016, the date the financial statements were issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**SANTA MONICA BAY RESTORATION AUTHORITY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<u>Revenues</u>				
Federal grants	\$ 90,000	\$ 90,000	\$ 71,637	\$ (18,363)
State grants	256,567	256,567	161,522	(95,045)
Contributions from other governmental agencies	16,335	16,335	16,335	-
Interest income	-	-	469	469
Total Revenues	<u>362,902</u>	<u>362,902</u>	<u>249,963</u>	<u>(112,939)</u>
<u>Expenditures</u>				
Salaries, wages and personnel	285,057	285,057	224,076	60,981
Utilities, supplies and other charges	77,538	77,538	74,019	3,519
Travel	14,319	14,319	14,889	(570)
Consultant's services	50,693	50,693	32,971	17,722
Capital expenditures - equipment	9,463	9,463	8,279	1,184
Total expenditures	<u>437,070</u>	<u>437,070</u>	<u>354,234</u>	<u>82,836</u>
Deficiency of revenues over expenditures	(74,168)	(74,168)	(104,271)	(30,103)
Fund balance, beginning of year	<u>107,018</u>	<u>107,018</u>	<u>107,018</u>	<u>-</u>
Fund balance, end of year	<u>\$ 32,850</u>	<u>\$ 32,850</u>	<u>\$ 2,747</u>	<u>\$ (30,103)</u>

See accompanying notes to required supplementary information.

# **SANTA MONICA BAY RESTORATION AUTHORITY**

## **NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2015**

### **BUDGETARY DATA**

The Authority prepares an annual budget on a grant by grant basis. The Authority utilizes a budgetary basis, which is a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

**SANTA MONICA BAY RESTORATION AUTHORITY**

COMBINING BALANCE SHEET  
SEPTEMBER 30, 2015

<u>Assets</u>	<u>SMBRA EPA Grant Fund</u>	<u>Santa Monica Bay Restoration Authority Operating Fund</u>	<u>Total</u>
Cash and investments	\$ 45,592	\$ 33,675	\$ 79,267
Interest receivable	12	11	23
Accounts receivable	-	180,872	180,872
Total assets	<u>\$ 45,604</u>	<u>\$ 214,558</u>	<u>\$ 260,162</u>
 <u>Liabilities and Fund Balance</u>			
Accrued expenses	\$ 45,162	\$ 212,253	\$ 257,415
Total liabilities	<u>45,162</u>	<u>212,253</u>	<u>257,415</u>
Fund balance - unassigned	442	2,305	2,747
Total liabilities and fund balance	<u>\$ 45,604</u>	<u>\$ 214,558</u>	<u>\$ 260,162</u>

See accompanying notes to required supplementary information.

**SANTA MONICA BAY RESTORATION AUTHORITY**

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<u>Revenues</u>	<u>SMBRA EPA Grant Fund</u>	<u>Santa Monica Bay Restoration Authority Operating Fund</u>	<u>Total</u>
Federal Grants	\$ 71,637	\$ -	\$ 71,637
State Grants	-	161,522	161,522
County Departments	-	16,335	16,335
Interest Income	410	59	469
Total Revenues	72,047	177,916	249,963
 <u>Expenditures</u>			
Capital expenditures - equipment	-	8,279	8,279
Contract and Professional Services	162,071	136,736	298,807
Utilities, Supplies and Other Charges	15,791	31,357	47,148
Total Expenditures	177,862	176,372	354,234
Excess/(Deficiency) of Revenues over Expenditures	(105,815)	1,544	(104,271)
Fund Balance, Beginning of Year	106,256	762	107,018
Fund Balance, End of Year	\$ 441	\$ 2,306	\$ 2,747

See accompanying notes to required supplementary information.

**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**

To the Board of Directors of  
The Santa Monica Bay Restoration Authority

We have audited, 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, the financial statements of the Santa Monica Bay Restoration Authority (Authority) as of and for the year ended September 30, 2015, and the related notes to the financial statements and have issued our report thereon dated June 7, 2016.

***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 opinion 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings as items 2015-01 and 2015-02.

### **Authority's Response to Finding**

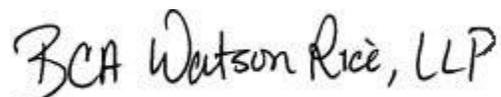
The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Contractor's responses are not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

### **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 Authority's internal control and compliance.

### **Restriction on Use**

This report is intended solely for the information and use of the Board of Directors, management and others within the Authority, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "BCA Watson Rice, LLP". The signature is written in a cursive, flowing style.

Torrance, California  
June 7, 2016

**SANTA MONICA BAY RESTORATION AUTHORITY**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**Finding #2015-01 – Annual Budgets**

Based on our audit of FY 2015, we found that the Authority developed an annual budget for each grant awarded to the agency. The budget on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual were based on these individual grant budgets. We were provided the individual grant budgets for the three grants under contract for FY 2015, which was used as the Authority’s annual budget. We verified that the Authority’s expenditures were in accordance with the grant budgets.

In addition, the FY 2015 individual annual grant budgets were approved by the Commission and the Board of Supervisors of the District.

Section 10.2 of the Joint Powers Agreement between the Santa Monica Bay Restoration Commission (Commission) and the Los Angeles County Flood Control District (District) states that *“The Authority shall be accountable for all funds, receipts, and disbursements. The Authority shall adopt an annual budget, in a form approved by the Commission and the District, which budget shall be submitted to the Commission and to the Board of Supervisors of the District for approval, in time and manner specified by all of these public agencies. Public funds may not be disbursed by the Authority without a budget adopted by the Authority, and approved by the Board of Supervisors of the District and the Governing Board of the Commission, and all receipts and disbursements shall be in strict conformance with the adopted and approved budget.”*

**Recommendation**

In addition to the annual individual grant budgets, we recommend that the Authority adopt an annual comprehensive budget of the agency. The annual comprehensive budget shall include all grant budgets broken down into the corresponding financial statement categories, in a form approved by the Governing Board of the Commission and the Board of Supervisors of the District in accordance with the Joint Powers Agreement.

**Authority’s Response**

In addition to the grant-based annual budget, the Authority will consider adopting an annual budget that is more comprehensive and traditional to include categories corresponding to those in the financial statements, in a form that is approved by the Governing Board of the Commission and the Board of Supervisors of the District.

**SANTA MONICA BAY RESTORATION AUTHORITY**  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**Finding #2015-02 – Not Timely Accruing Billings/Invoices**

One of the best practices in accounting and financial reporting as recommended by the Government Finance Officers Association (GFOA) is the timely recording of transactions and timeliness in Financial Reporting. These best practices are also in accordance with the Governmental Accounting Standards Board (GASB) Concepts Statement No. 1, *Objective of Financial Reporting*, which highlights that Financial Reports are intended to meet the needs of decision makers. Along this concept, *timeliness* was identified as one of the characteristics of information in financial reporting. To accomplish this objective, financial reports must be available on time to inform decision making. Therefore, financial processes and reports should be completed as soon as possible (which is dependent on the timely recording/accruals of transactions and closing of books) after the end of the reporting period.

During our audit, we found that the Authority did not accrue nor submit in a timely manner its billings/invoices to the Grantor for expenditures incurred for the Malibu Lagoon Grant during fiscal years 2014-2015 and 2013-2014 amounting to \$110,235 and \$77,913, respectively. As a result, expenditures and related revenues for this grant were not recorded timely by the Los Angeles County Auditor-Controller, which handles the bookkeeping and recording of the Authority's transactions.

Due to the nature of the work activities under the Malibu Lagoon Grant, instead of claiming for reimbursement on a monthly basis, the Authority opted to, with the consent of the Grantor, bundle expenditures of all major categories at the end of the "monitoring time period" (the length of time varies but normally covers several months). As a result, there have been delays in getting the invoices prepared, partly because of the time needed to get invoices from laboratory subcontractors. Also, the Authority failed to notify the Auditor-Controller of the change in the frequency of the submission of the invoices to the Grantor and therefore timely accruals were not made to recognize these transactions in fiscal years 2015 and 2014.

The non-submission of the billings/invoices in a timely manner has resulted in the accruals of expenditures and related revenues not being recorded in the Authority's books of accounts in the proper accounting period. This situation triggered the delay in the finalization and completion of the Authority's financial reports because adjustments needed to be made to incorporate the accruals of expenditures and related revenues, which ultimately caused the delay in the audit process.

**Recommendation**

We recommend the Authority submit its billings/invoices in a timely manner to the Grantor and to the Auditor-Controller (for bookkeeping purposes), so that these expenditures and related revenues could be properly recognized in the Authority's books of accounts. Thus, the required financial reports for a particular reporting period could be completed on time.

**Authority's Response**

The Authority's management is taking the necessary steps to correct this issue and submit all billings and invoices in a timely manner to the Grantor and to the Department of Auditor-Controller.

**SANTA MONICA BAY RESTORATION AUTHORITY**  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**Finding #2014-01 – Annual Budgets**

Based on our audit of nine years from FY 2006 through FY 2014, we found that the Authority developed an annual budget of the agency for FY 2006, FY 2011 and FY 2012 only. We were provided grant budgets for the other six fiscal years, which was used as the Authority's budget. The budget on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual were based on grant budgets. We verified that the Authority's expenditures were in accordance with the grant budgets.

In addition, the FY 2006, FY 2011 and 2012 annual budgets were approved by the Commission and the Board of Supervisors of the District. However, we found that three out of six grant budgets were approved by the Governing Board of the Commission, but none were approved by the Board of Supervisors of the District.

Section 10.2 of the Joint Powers Agreement between the Santa Monica Bay Restoration Commission (Commission) and the Los Angeles County Flood Control District (District) states that *“The Authority shall be accountable for all funds, receipts, and disbursements. The Authority shall adopt an annual budget, in a form approved by the Commission and the District, which budget shall be submitted to the Commission and to the Board of Supervisors of the District for approval, in time and manner specified by all of these public agencies. Public funds may not be disbursed by the Authority without a budget adopted by the Authority, and approved by the Board of Supervisors of the District and the Governing Board of the Commission, and all receipts and disbursements shall be in strict conformance with the adopted and approved budget.”*

**Recommendation**

We recommend that the Authority adopt an annual budget of the agency, which includes all grant budgets, in a form approved by the Governing Board of the Commission and the Board of Supervisors of the District in accordance with the Joint Powers Agreement.

**Authority's Response**

The Authority agrees with this recommendation. The budget for fiscal year 2014-2015 was approved by all parties as of March 17, 2015 and in future years, every attempt will be made to have the budget approved as soon as possible and no expenditures will be made until a budget has been approved.

**Status of Finding**

The Authority adopted fiscal year 2014-15 budgets on a grant by grant basis. In the current year, we further recommend that the Authority adopt a comprehensive annual budget comprising of all grant activity.

**SANTA MONICA BAY RESTORATION AUTHORITY**  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**Finding #2014-02 – Annual Audits**

Santa Monica Bay Restoration Authority Joint Powers Agreement was executed on April 6, 2004, and funding was received by the Authority in FY 2006. However, an audit of the Authority was never conducted until FY 2014.

Section 10.4 of the Joint Powers Agreement states that *“The Auditor-Controller shall either make or contract with a certified public accountant to make an annual audit of the accounts and records of the Authority.”*

Recommendation

We recommend that an annual audit of the Authority be conducted in accordance with the Joint Powers Agreement.

Authority’s Response

We agree with the recommendation that an annual audit should be conducted for the Authority and now that a funding source has been identified, we will continue to have them completed on an annual basis.

Status of Finding

Annual audit for fiscal year 2014-15 was conducted in a timely manner.

**SANTA MONICA BAY RESTORATION AUTHORITY**  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**Finding #2014-03 – Bond**

We found that the Authority did not require that each member of the Governing Board, the executive officer, and the treasurer file an official bond with the Authority.

Section 10.4 of the Joint Powers Agreement states that *“Each member of the Governing Board, the executive officer, and the treasurer shall file an official bond with the Authority. When deemed appropriate by the Authority, a master bond may be utilized as referred to in Government Code Section 1481, and the bond shall also comply with the requirements of Title 1, Division 4, Chapter 3 of the Government Code, with those sections being deemed applicable to the Authority to the extent the Authority deems appropriate. The bond shall be in the amount of \$50,000. The premium shall be paid by the Authority.”*

Recommendation

We recommend that each member of the Governing Board, the executive officer, and the treasurer file an official bond with the Authority in accordance with the Joint Powers Agreement.

Authority’s Response

The Authority has started the process of securing a master bond for the SMBRA’s Executive Director and each member of the SMBRA Governing Board, in accordance with and as referred to in Government Code Section 1481, to comply with the requirements of Title 1, Division 4, Chapter 3 of the Government Code. This process is expected to be completed within the current fiscal year ending September 30, 2015.

Status of Finding

The Authority secured a master bond on April 5, 2016.

**SANTA MONICA BAY RESTORATION AUTHORITY**  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

**Finding #2014-04 – Competitive Bids**

During our audit, the Authority was unable to provide evidence to show that competitive bids (at least 3 bids) were obtained for three out of four contracts tested in fiscal years 2006 and 2007. Since the evidence was not provided, we were unable to determine whether the Authority was in compliance with the contract procedural requirements.

The Authority's purchasing and contracting procedures state that "*contracts in excess of twenty-five thousand dollars (\$25,000) shall be awarded after the three-bid procedure and advertisement of bids.*"

Recommendation

We recommend that all contracts in excess of \$25,000 evidence competition showing at least 3 bids were received in accordance with the Authority's purchasing and contracting procedures.

Authority's Response

We agree with this recommendation. The Authority's Purchasing and Contracting Procedures require that "contracts in excess of twenty-five thousand dollars (\$25,000) shall be let after the three-bid procedure and advertisement of bids unless this practice is deemed inefficient or redundant for a project where a sole source or prior experience and/or professional qualifications have proven that a particular make and/or type of equipment, material, supply or service is more satisfactory or economical for SMBRA purposes" (Section 3.4(d)). For the exceptions noted above, we are unable to provide evidence because of staffing changes over the past seven years and difficulty locating documents since so much time has passed. However, the Authority has followed and will continue to follow the policy on all purchases and contracts.

Status of Finding

During FY 2014-15, the Authority did not enter into any contracts in excess of \$25,000 and therefore did not require any competitive bids.