

SANTA MONICA BAY RESTORATION AUTHORITY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016



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SANTA MONICA BAY RESTORATION AUTHORITY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2016

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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, 2016, 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, 2016, 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 22, 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 February 6, 2017 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.



Torrance, California
February 6, 2017

SANTA MONICA BAY RESTORATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED SEPTEMBER 30, 2016

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, 2016. 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, 2016 are \$265,572.
- Revenues mainly consisted of federal and state grants. The total operating revenue of the Authority as of September 30, 2016 is \$179,918.
- The net position of the Authority as of September 30, 2016 is \$16,322.
- The Authority has no short or long-term debt.
- The Authority has capital assets in the amount of \$10,983.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED SEPTEMBER 30, 2016

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 2015-2016 are reported under this category.

Business-type Activities – The Authority has no business-type activities during fiscal year 2015-2016.

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 2015-2016.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED SEPTEMBER 30, 2016

Capital Assets

As of September 30, 2016, the Authority had capital assets of \$10,983, consisting of data probe equipment and electronic equipment.

Economic Factors

The Authority monitors and manages its resources to stay within its financial means and not incur expenditures beyond its secured revenue. The revenues of the Authority consist primarily of federal, state, and local grants and agreements, which fund the Authority's expenditures primarily in the form of contracts and professional services.

Grants and Agreements impacting the Authority:

Boater Education Grant:

The existing Boater Education Grant from the State of California Department of Boating and Waterways to the Authority, which was supposed to end on December 31, 2016, has received a no-cost extension to March 31, 2017. This grant will not be renewed, therefore the Authority will not continue with this project.

New secure funding

After a period of negotiations and agreement refinements, the Authority and Los Angeles World Airports (LAWA) has now approved an MOU to begin a multi-year partnership that will seek to restore 48 acres of habitat at the Los Angeles Airport (LAX) dunes. Programmatically and financially, this new partnership will bring about the following benefits:

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

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, 2016

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 24,521
Interest receivable	14
Accounts receivable (Note 4)	230,054
Capital assets (Note 5)	10,983
Total Assets	<u>\$ 265,572</u>
Liabilities	
Accrued expenses	<u>\$ 249,250</u>
Total Liabilities	<u>249,250</u>
Net Position	
Net investment in capital assets	10,983
Unrestricted	5,339
Total Net Position	<u>\$ 16,322</u>

See accompanying notes to the basic financial statements.

SANTA MONICA BAY RESTORATION AUTHORITY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Expenses	Program Revenues <u>Capital Grants and Contributions</u>	Net (Expense) Revenue and Change in Net Position <u>Governmental Activities</u>
<u>Functions/Programs</u>			
Governmental activities -			
Santa Monica Bay restoration programs	\$ 173,618	\$ 179,918	\$ 6,300
Total	\$ 173,618	\$ 179,918	6,300
		General revenues:	
		Investment income	238
		Change in net position	6,538
		Net position, beginning of year	9,784
		Net position, end of year	\$ 16,322

See accompanying notes to the basic financial statements.

SANTA MONICA BAY RESTORATION AUTHORITY

**BALANCE SHEET
SEPTEMBER 30, 2016**

Assets

Cash and investments (Note 3)	\$	24,521
Interest receivable		14
Accounts receivable (Note 4)		<u>230,054</u>
Total assets	\$	<u><u>254,589</u></u>

Liabilities and Fund Balance

Accrued expenses	\$	<u>249,250</u>
Total liabilities		<u>249,250</u>
Fund balance – unassigned		<u>5,339</u>
Total liabilities and fund balance	\$	<u><u>254,589</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, 2016**

Governmental Fund Balance (page 8)	\$	5,339
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.		10,983
Net Position of Governmental Activities (page 6)	<u>\$</u>	<u>16,322</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, 2016**

Revenues

Federal grants	\$ 20,440
State grants	146,552
Contributions from other governmental agencies	12,926
Interest income	238
Total revenues	<u>180,156</u>

Expenditures

Capital expenditures – equipment	6,722
Contract and professional services	150,899
Utilities, supplies and other charges	19,943
Total expenditures	<u>177,564</u>

Excess of revenues over expenditures 2,592

Fund balance, beginning of year 2,747

Fund balance, end of year \$ 5,339

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, 2016**

Net Change in Fund Balance – Governmental Funds (page 10) \$ 2,592

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 \$6,722 in the current period. 6,722

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. (2,776)

Change in Net Position of Governmental Activities (page 7) \$ 6,538

See accompanying notes to the basic financial statements.

SANTA MONICA BAY RESTORATION AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2016

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, 2016, the net investment in capital assets net position balance was \$10,983 and the unrestricted net position balance was \$5,339.

SANTA MONICA BAY RESTORATION AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2016

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2016

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. At September 30, 2016, the unassigned fund balance was \$5,339.

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 GASB pronouncements and their impact, if any, on the financial statements.

SANTA MONICA BAY RESTORATION AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements (Continued)

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. See Note 3 for additional information.

In June 2015, GASB issued Statement No. 76 “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*” which reduces the GAAP hierarchy from four categories under GASB Statement No. 55 to two categories. The first category consists of GASB Statements of Governmental Accounting Standards and the second category comprises GASB Technical Bulletins, Implementation Guides, and guidance from the AICPA. The most significant change is the raising of the level of authority of the Implementation Guides. The Statement also 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.

These changes are intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance that will result in governments applying that guidance with less variation. GASB 76 will improve the usefulness of financial statement information for making decisions, assessing accountability, and enhancing the comparability of financial statement information among governments. The requirements of this Statement are effective for fiscal years beginning after June 15, 2015. Implementation of the GASB Statement No. 76 did not have an impact on the Authority’s financial statements for the fiscal year ended September 30, 2016.

In December 2015, GASB issued Statement No. 79, “*Certain External Investment Pools and Pool Participants*.” This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The provisions of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. Implementation of the GASB Statement No. 79 did not have an impact on the Authority’s financial statements for the fiscal year ended June 30, 2016.

NOTE 3 - CASH AND INVESTMENTS

The Authority’s cash and investments are pooled and invested by the Los Angeles County Treasurer and Tax Collector (Treasurer) 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, 2016 are \$24,521.

SANTA MONICA BAY RESTORATION AUTHORITY

NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE 3 - CASH AND INVESTMENTS (Continued)

Investments are stated at fair value and are valued on a monthly basis. The Treasurer categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs such as matrix pricing techniques or based on quoted prices for assets in markets that are not active. Matrix Pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Level 3 inputs are significant unobservable inputs. Securities classified in Level 3 are valued using the income approach such as discounted cash flow techniques. Investment in an external government investment pool is not subject to reporting within the level hierarchy.

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, 2016.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivables of \$230,054 as of September 30, 2016 represents receivables from the California Department of Parks and Recreation for allowable Department of Parks and Recreation expenditures.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2016 was as follows:

Governmental activities:	Balance at October 1, 2015	Increases	Decreases	Balance at September 30, 2016
Capital asset being depreciated				
Data probes equipment	\$ 8,279	\$ -	\$ -	\$ 8,279
Electronic equipment	-	6,722	-	6,722
Total capital assets being depreciated	<u>8,279</u>	<u>6,722</u>	<u>-</u>	<u>15,001</u>
Less accumulated depreciation for:				
Data probes equipment	(1,242)	(1,656)	-	(2,898)
Electronic equipment	-	(1,120)	-	(1,120)
Total Accumulated depreciation	<u>(1,242)</u>	<u>(2,776)</u>	<u>-</u>	<u>(4,018)</u>
Net capital assets	<u>\$ 7,037</u>	<u>\$ 3,946</u>	<u>\$ -</u>	<u>\$ 10,983</u>

The above equipment are used for the Malibu Lagoon restoration and enhancement project. Depreciation expense for the year ended September 30, 2016 was \$2,776.

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NOTES TO THE BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2016

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 February 6, 2017, 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, 2016

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
<u>Revenues</u>				
Federal grants	\$ 99,937	\$ 99,937	\$ 20,440	\$ (79,497)
State grants	425,003	425,003	146,552	(278,451)
Contributions from other governmental agencies	10,535	10,535	12,926	2,391
Interest income	-	-	238	238
Total Revenues	535,475	535,475	180,156	(355,319)
<u>Expenditures</u>				
Salaries, wages and personnel	315,849	315,849	135,475	180,374
Utilities, supplies and other charges	39,170	39,170	15,590	23,580
Travel	6,647	6,647	4,353	2,294
Consultant's services	173,806	173,806	15,424	158,382
Capital expenditures - equipment	-	-	6,722	(6,722)
Total expenditures	535,472	535,472	177,564	357,908
Excess of revenues over expenditures	3	3	2,592	2,589
Fund balance, beginning of year	2,747	2,747	2,747	-
Fund balance, end of year	\$ 2,750	\$ 2,750	\$ 5,339	\$ 2,589

See accompanying notes to required supplementary information.

SANTA MONICA BAY RESTORATION AUTHORITY

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION SEPTEMBER 30, 2016

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, 2016

	SMBRA EPA Grant Fund	Santa Monica Bay Restoration Authority Operating Fund	Total
<u>Assets</u>			
Cash and investments	\$ 19,782	\$ 4,739	\$ 24,521
Interest receivable	9	5	14
Accounts receivable	1,243	228,811	230,054
Total assets	<u>\$ 21,034</u>	<u>\$ 233,555</u>	<u>\$ 254,589</u>
 <u>Liabilities and Fund Balance</u>			
Accrued expenses	\$ 20,439	\$ 228,811	\$ 249,250
Total liabilities	<u>20,439</u>	<u>228,811</u>	<u>249,250</u>
 Fund balance - unassigned	 595	 4,744	 5,339
Total liabilities and fund balance	<u>\$ 21,034</u>	<u>\$ 233,555</u>	<u>\$ 254,589</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, 2016**

	SMBRA EPA Grant Fund	Santa Monica Bay Restoration Authority Operating Fund	Total
<u>Revenues</u>			
Federal Grants	\$ 20,440	\$ -	\$ 20,440
State Grants	-	146,552	146,552
County Departments	-	12,926	12,926
Interest Income	154	84	238
Total Revenues	<u>20,594</u>	<u>159,562</u>	<u>180,156</u>
<u>Expenditures</u>			
Capital expenditures - equipment	-	6,722	6,722
Contract and Professional Services	19,585	131,314	150,899
Utilities, Supplies and Other Charges	855	19,088	19,943
Total Expenditures	<u>20,440</u>	<u>157,124</u>	<u>177,564</u>
Excess/(Deficiency) of Revenues over Expenditures	154	2,438	2,592
Fund Balance, Beginning of Year	<u>441</u>	<u>2,306</u>	<u>2,747</u>
Fund Balance, End of Year	<u>\$ 595</u>	<u>\$ 4,744</u>	<u>\$ 5,339</u>

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, 2016, and the related notes to the financial statements and have issued our report thereon dated February 6, 2017.

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 an instance of noncompliance that is required to be

reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings as item 2016-01.

Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Authority's response is not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

BCA Watson Rice, LLP

Torrance, California
February 6, 2017

SANTA MONICA BAY RESTORATION AUTHORITY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Finding #2016-01 – Billings/Invoices Not Accrued Timely

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 makers. 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 CVA-Boater Grant for the period 7/1/2016 to 9/30/2016 and Malibu Lagoon Grant for the period 10/1/2015 to 9/30/2016, and Wetlands Grant for the period 4/1/2016 to 6/30/2016 and 7/1/2016 to 9/30/2016 amounting to \$50,064, \$99,236, and \$1,118, 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 year 2016.

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

As in prior-year, we reiterate our recommendation for the Authority to 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 agrees with this recommendation and recognizes the importance of timely submissions of billings/invoices to the grantors and the County of Los Angeles Auditor-Controller and acknowledges the complications that have been caused by delayed invoices for fiscal year 2015-2016. The Authority has focused on correcting this issue and invoices/billings are now up-to-date in the current fiscal year.

SANTA MONICA BAY RESTORATION AUTHORITY
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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.

Status of Finding

Based on the fiscal year 2015-2016 audit, we found that the Authority adopted an annual budget, but not categorized per financial statement presentation. However, the Authority was able to group their expenses per financial statements after we provided them the pro-forma/guide. This finding has been resolved.

SANTA MONICA BAY RESTORATION AUTHORITY
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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, 2016

Status of Finding

During the fiscal year 2015-16 audit, we found that the Authority was still not submitting its invoices on a timely basis. Thus, this finding is not resolved and is reported as a noncompliance item as finding #2016-1 in the Schedule of Findings.