



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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September 18, 2018

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

## RECOMMENDATION:

Receive and file the Federal Single Audit, Separately Issued Financial Statement, and the Auditor's Communication with Those Charged with Governance for the Fiscal Year Ended September 30, 2017. (Citywide)

## DISCUSSION

On May 8, 2018, the Financial Management Department submitted to the City Council the City's Comprehensive Annual Financial Report (CAFR) and other separately issued financial reports and statements for the fiscal year ended September 30, 2017 (FY 17), as required by the City Charter.

Additional annual reports that were not available on the above date are attached, including the Los Cerritos Wetlands Authority annual financial report and the Federal Single Audit report, to meet distinct legal and financial requirements.

### **Federal Single Audit**

The Federal Single Audit is required by the Federal Office of Management and Budget (OMB) for municipalities receiving over \$500,000 annually in federal funds. The Federal Single Audit, covering three major programs (Section 8 Housing Choice Vouchers, HOME Investment Partnership Program, and Continuum of Care) resulted in a single material weakness in internal controls within the HOME Investment Partnership Program, and a significant deficiency in internal controls and \$2,437 in questioned costs related to the Section 8 Housing Choice Voucher program. This is a slightly less favorable result than the previous fiscal year's audit that resulted in no findings or questioned costs.

The material weakness noted above was related to the alteration of copies of loan agreements for one borrower participating in the Multi-Family Loan Program. The alterations, which were made several years ago, were discovered and reported by the staff of Development Services' HOME Program. Staff immediately initiated an investigation into the alterations. No original loan documents were altered and no loan dollars were inappropriately used. An external independent review found no additional discrepancies across the remaining loan population. The department has taken action to mitigate this weakness through enhanced controls over the security and monitoring of all loan files.

**The Auditor's Communications with Those Charged with Governance**

The City's external auditor (KPMG) is required to prepare and submit the Auditor's Communication with Those Charged with Governance in accordance with Statement of Auditing Standards 114 (SAS 114). "Those charged with governance" refers to the person or persons responsible for the strategic direction of the entity and the obligations relative to the accountability of such entity, including oversight of the financial reporting process. KPMG is required to communicate with those charged with governance those matters related to the financial statement audit that are, in KPMG's professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

This matter was reviewed by Deputy City Attorney Amy R. Webber and by Budget Management Officer Rhutu Amin Gharib on August 30, 2018.

TIMING CONSIDERATIONS

City Council action on this item is not time critical.

FISCAL IMPACT

There is no fiscal or local job impact associated with this recommendation.

**SUGGESTED ACTION:**

Approve recommendation.

Respectfully submitted,



**JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT**

**APPROVED:**



**PATRICK H. WEST  
CITY MANAGER**

JG:SWH:NL  
K:\FM-ADMIN\CITY COUNCIL LETTERS\ACCOUNTING\2018\09-18-18 CCL-FY17 CAFR SUPPLEMENTAL FINAL\9-18-18

**ATTACHMENTS:**

- FY 2017 FEDERAL SINGLE AUDIT
- FY 2017 AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
- FY 2017 LOS CERRITOS WETLANDS AUTHORITY ANNUAL FINANCIAL REPORT



**CITY OF LONG BEACH, CALIFORNIA**

Audit of Expenditures of Federal Awards Performed in  
Accordance with the Uniform Guidance

Year Ended September 30, 2017

(With Independent Auditors' Reports Thereon)

## CITY OF LONG BEACH, CALIFORNIA

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**Independent Auditors' 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***

The Honorable Mayor and City Council  
City of Long Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 26, 2018. Our report includes a reference to other auditors who audited the financial statements of the Long Beach Public Transportation Company (the Company), as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, identified as 2017-001 and 2017-002 in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The City's Response to Findings**

The City's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

### **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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

Irvine, California  
March 26, 2018



KPMG LLP  
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**Independent Auditors' Report on Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance; and Report on Schedule of  
Expenditures of Federal Awards Required by the Uniform Guidance**

The Honorable Mayor and City Council  
City of Long Beach, California:

**Report on Compliance for Each Major Federal Program**

We have audited City of Long Beach, California's (the City's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City's major federal programs for the year ended September 30, 2017. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's financial statements include the operations of the Long Beach Transportation Company, the discretely presented component unit, which received \$13,268,961 in federal awards, which is not included in the schedule of expenditures of federal awards for the year ended September 30, 2017. Our audit, described below, did not include the operations of the discretely presented component unit because Long Beach Transportation Company engaged other auditors to perform an audit in accordance with the Uniform Guidance.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinions on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

*Opinion on Each Major Federal Program*

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.



### *Other Matters*

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-003 to be material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-004 to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.





**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 26, 2018, which contained unmodified opinions on those financial statements. Our report includes a reference to other auditors who audited the financial statements of the Long Beach Public Transportation Company (the Company), as described in our report on the City's financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*KPMG LLP*

Irvine, California  
July 2, 2018

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures	Passed through to subrecipients
Department of Agriculture Food and Nutrition Service:				
Passed through the State of California Department of Health Services:				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	15-10061	\$ 17,659,418	\$ —
Passed through the State of California Department of Education:				
Summer Food Service Program for Children	10.559	19-81908V	279,451	—
Passed through the State of California Department of Health Services:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	13-20015	911,893	163,906
Total Department of Agriculture Food and Nutrition Service			<u>18,850,762</u>	<u>163,906</u>
Department of Commerce Economic Development Administration:				
Direct:				
Economic Adjustment Assistance	11.307	07-49-05046	1,114,971	—
Total Department of Commerce Economic Development Administration			<u>1,114,971</u>	<u>—</u>
Department of Defense – Office of Economic Adjustment:				
Direct:				
Community Economic Adjustment Assistance for Reductions in Defense Industry Employment	12.611	CR1517-15-01	375,456	375,456
Community Economic Adjustment Assistance for Reductions in Defense Industry Employment	12.611	CR1517-17-03	370,855	—
Total Department of Defense – Office of Economic Adjustment			<u>746,311</u>	<u>375,456</u>
Department of Housing and Urban Development:				
Direct:				
Community Development Block Grant/Entitlement Grants	14.218	B-14-MC-06-0522	1,241,271	—
Community Development Block Grant/Entitlement Grants	14.218	B-15-MC-06-0522	3,694,937	—
Community Development Block Grant/Entitlement Grants	14.218	B-16-MC-06-0522	3,968,087	—
			<u>8,904,295</u>	<u>—</u>
Community Development Block Grant/Entitlement Grants – NSP1	14.218	B-08-MN-06-0511	923,507	—
Community Development Block Grant/Entitlement Grants – NSP3	14.218	B-11-MN-06-0511	393,757	—
Total Community Development Block Grant/Entitlement Grants Cluster (14.218)			<u>10,221,559</u>	<u>—</u>
Emergency Solutions Grant Program	14.231	E-15-MC-06-0522	30,000	—
Emergency Solutions Grant Program	14.231	E-16-MC-06-0522	467,248	—
Total Emergency Solutions Grant Program (14.231)			<u>497,248</u>	<u>—</u>
Direct:				
Shelter Plus Care	14.238	CA1132C9D061100	39,913	—
Department of Housing and Urban Development:				
Direct:				
Home Investment Partnerships Program	14.239	M-11-MC-06-0518	71,136,172	—
Home Investment Partnerships Program	14.239	M-12-MC-06-0518	348,933	—
Home Investment Partnerships Program	14.239	M-13-MC-06-0518	1,782,232	—
Home Investment Partnerships Program	14.239	M-14-MC-06-0518	1,575,660	—
Home Investment Partnerships Program	14.239	M-15-MC-06-0518	237,394	—

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures	Passed through to subrecipients
Home Investment Partnerships Program	14.239	M-16-MC-06-0518	\$ 1,691,859	\$ —
Home Investment Partnerships Program	14.239	M-17-MC-06-0518	38,781	—
Total Home Investment Partnerships Program (14.239)			<u>76,811,031</u>	<u>—</u>
Passed through the City of Los Angeles:				
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	98256	683,292	—
Direct:				
ARRA – Neighborhood Stabilization Program – NSP2	14.256	B-09-CN-CA-0045	195,214	—
Continuum of Care Program – CoC 2014	14.267	CA0000U9D061402	(87,309)	—
Continuum of Care Program	14.267	CA0000U9D061502	5,065,997	3,827,879
Continuum of Care Program	14.267	CA0000U9D061604	1,760,804	1,329,675
Continuum of Care Program	14.267	CA0646U9D061508	272,939	—
Continuum of Care Program	14.267	CA0646U9D061609	93,779	—
Continuum of Care Program	14.267	CA0647U9D061508	125,850	—
Continuum of Care Program	14.267	CA0647U9D061609	34,855	—
Continuum of Care Program	14.267	CA0932U9D061506	59,418	—
Continuum of Care Program	14.267	CA0932U9D061607	18,718	—
Continuum of Care Program	14.267	CA1014U9D061501	26,601	—
Continuum of Care Program	14.267	CA1014U9D061602	8,011	—
Continuum of Care Program	14.267	CA1132U9D061601	13,513	—
Total Continuum of Care Program (14.267)			<u>7,393,176</u>	<u>5,157,554</u>
Section 8 Housing Choice Vouchers – Total Housing Voucher Cluster	14.871	CA068VO	67,210,598	—
Family Self-Sufficiency Program	14.896	CA068FSH057A015	72,862	—
Family Self-Sufficiency Program	14.896	CA068FSH072A016	212,957	—
Total Family Self-Sufficiency Program (14.896)			<u>285,819</u>	<u>—</u>
Lead-based Paint Hazard Control in Privately Owned Housing	14.900	CALHB0591-15	1,298,264	—
Total Department of Housing and Urban Development			<u>164,636,114</u>	<u>5,157,554</u>
Research and Development Cluster:				
Department of the Interior – Bureau of Reclamation:				
Direct:				
Water Desalination Research and Development Program	15.506	R15AC00086	42,549	—
Total Department of the Interior Bureau of Reclamation			<u>42,549</u>	<u>—</u>
Total Research and Development Cluster			<u>42,549</u>	<u>—</u>
Department of the Interior – National Park Service:				
Passed through the State of California Department of Parks and Recreation:				
Land and Water Conservation Fund	15.916	06-1782	219,778	—
Total Department of the Interior – National Park Service			<u>219,778</u>	<u>—</u>

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures	Passed through to subrecipients
Department of Justice:				
Direct:				
Community-Based Violence Prevention Program	16.123	2014-NY-FX-K005	\$ 88,901	\$ —
Community-Based Violence Prevention Program	16.123	2015-PB-FX-K010	159,672	—
Total Community-Based Violence Prevention Program (16.123)			<u>248,573</u>	<u>—</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0318	6,257	—
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0249	135,798	—
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-DJ-BX-0091	16,872	—
Total Edward Byrne Memorial Justice Assistance Grant Program (16.738)			<u>158,927</u>	<u>—</u>
Passed through the State of California Office of Emergency Services:				
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ16127240	11,698	—
Direct:				
Asset Forfeiture	16.922	N/A	638,560	—
Total Department of Justice			<u>1,057,758</u>	<u>—</u>
Department of Labor:				
Passed through the State of California Employment Development Department:				
WIOA Adult Program – Adult Round 1	17.258	K7102038	42,876	—
WIOA Adult Program – Adult Round 1	17.258	K8106641	139,595	—
WIOA Adult Program – Adult Round 2	17.258	K7102038	1,539,117	—
WIOA Adult Program – Adult Round 2	17.258	K698367	99,532	—
			<u>1,821,120</u>	<u>—</u>
Passed through the State of California Employment Development Department:				
Passed through the County of Orange:				
WIA/WIOA Adult Program – OCWIB Veteran's Employment Assistance Program Adult 7	17.258	15-28-0005-VEAP	43	—
WIA/WIOA Adult Program – OCWIB Veteran's Employment Assistance Program Adult 8	17.258	16-28-0005-VEAP	100,008	—
			<u>100,051</u>	<u>—</u>
Passed through the State of California Employment Development Department:				
Passed through the City of Los Angeles:				
WIOA Adult Program – Harbor Worksource Ctr WIOA Adult	17.258	C-127938	392,675	36,333
WIOA Adult Program – Harbor Worksource Ctr WIOA Adult	17.258	C-129810	211,612	—
			<u>604,287</u>	<u>36,333</u>
Total WIA/WIOA Adult Program (17.258)			<u>2,525,458</u>	<u>36,333</u>
Passed through the State of California Employment Development Department:				
WIA/WIOA Youth Activities – WAF Youth Demo Program	17.259	K698367	37,497	—
WIOA Youth Activities – WIOA Youth	17.259	K698367	452,737	422,413

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures	Passed through to subrecipients
WIOA Youth Activities – WIOA Youth	17.259	K7102038	\$ 1,307,994	\$ 79,026
WIOA Youth Activities – WIOA Youth	17.259	K92006641	107,442	—
			<u>1,868,173</u>	<u>501,439</u>
Total WIA/WIOA Youth Activities (17.259)			<u>1,905,670</u>	<u>501,439</u>
Passed through the State of California Employment Development Department:				
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Layoff Aversion Round 2	17.278	K698367	89,068	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Layoff Aversion Round 3	17.278	K7102038	119,143	101,071
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Rapid Response Round 2	17.278	K698367	102,323	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Rapid Response Round 3	17.278	K7102038	420,221	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Round 2	17.278	K698367	190,551	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Round 3	17.278	K7102038	891,748	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Round 1	17.278	K7102038	55,991	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Round 2	17.278	K8106641	85,908	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Layoff Aversion Round 1	17.278	K7102038	20,278	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Layoff Aversion Round 2	17.278	K8106641	5,241	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Rapid Response Round 1	17.278	K7102038	62,517	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker Rapid Response Round 2	17.278	K8106641	39,009	—
WIOA High Performing Broads	17.278	K7102038	39,192	—
			<u>2,121,190</u>	<u>101,071</u>
Passed through the State of California Employment Development Department:				
Passed through the City of Los Angeles:				
WIOA Dislocated Worker Formula Grants – Harbor Worksource Ctr Moving Forward Dislocated Worker	17.278	C-126164	(1,656)	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker	17.278	C-127938	344,234	—
WIOA Dislocated Worker Formula Grants – WIOA Dislocated Worker	17.278	C-129810	109,427	—
			<u>453,661</u>	<u>—</u>
Passed through the State of California Employment Development Department:				
Passed through the County of Orange:				
WIA/WIOA Dislocated Worker Formula Grants – OCWIB Veteran's Employment Assistance Program Dislocated Worker 8	17.278	16-28-0005-VEAP	82,375	—
Total WIA/WIOA Dislocated Worker Formula Grants (17.278)			<u>2,655,570</u>	<u>101,071</u>
Total WIA/WIOA cluster (17.258, 17.259 and 17.278)			<u>7,086,698</u>	<u>638,843</u>
Passed through the State of California Employment Development Department:				
WIOA National Dislocated Worker Grants/WIA National Emergency Grants – NEG Sector Partnership	17.277	K698367	255,806	5,000
Passed through the State of California Employment Development Department:				
WIA/WIOA Dislocated Worker National Reserve Demonstration Grants – Youth Demonstration Project	17.280	K698367	1,360,050	5,139
Passed through the State of California Employment Development Department:				
Passed through the Long Beach Community College District:				
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants – Links	17.282	99721.5	119,250	—
Total Department of Labor			<u>8,821,804</u>	<u>648,982</u>

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures	Passed through to subrecipients
Department of Transportation:				
Direct:				
Airport Improvement Program	20.106	AIP 3-06-0127-041-2014	\$ 148,565	\$ —
Airport Improvement Program	20.106	AIP 3-06-0127-042-2015	2,831,244	—
Airport Improvement Program	20.106	AIP 3-06-0127-043-2015	145,075	—
Airport Improvement Program	20.106	AIP 3-06-0127-044-2016	8,367	—
Total Airport Improvement Program (20.106)			3,133,251	—
Passed through the State of California Department of Transportation:				
Highway Planning and Construction	20.205	ACNH 7101 (807)	54,186,112	—
Highway Planning and Construction	20.205	BRLS-5108 (137)	12,365,181	—
Highway Planning and Construction	20.205	STPL-5108 (144)	(2,713)	—
Highway Planning and Construction	20.205	STPL-5108 (147)	(10,095)	—
Highway Planning and Construction	20.205	STPL-5108 (145)	1,031	—
Highway Planning and Construction	20.205	STPL-5108 (161)	(1,571)	—
Highway Planning and Construction	20.205	STPL-5108 (162)	(3,250)	—
Highway Planning and Construction	20.205	STPL-5108 (165)	39,389	—
Highway Planning and Construction	20.205	HPLUL-5108 (126)	(31,168)	—
Highway Planning and Construction	20.205	HPLUL-5108 (135)	754,621	—
Highway Planning and Construction	20.205	HSIPL-5108 (151)	2,412	—
Highway Planning and Construction	20.205	HSIPL-5108 (164)	446,731	—
Highway Planning and Construction	20.205	CML-5108 (159)	3,625	—
Highway Planning and Construction	20.205	RPSTPL-5108 (153)	(4,222)	—
Highway Planning and Construction	20.205	RPSTPL-5108 (154)	(87,026)	—
Highway Planning and Construction	20.205	CML-5108 (176)	6,925	—
Total Highway Planning and Construction Programs(20.205)			67,665,982	—
Passed through the State of California Department of Transportation:				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated – Bicycle Safety Initiative (OTS)	20.600	PS1706	49,986	3,620
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.600	PT1764	238,397	—
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated (20.600)			288,383	3,620
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1664	118,798	—
Total Highway Safety Cluster (20.600 and 20.608)			407,181	3,620
Total Department of Transportation			71,206,414	3,620
Environmental Protection Agency:				
Passed through the State of California Department of Health Services:				
Beach Monitoring and Notification Program Implementation	66.472	D1514103	20,023	—
Beach Monitoring and Notification Program Implementation	66.472	D1714103	6,423	—
Total Beach Monitoring and Notification Program Implementation (66.472)			26,446	—

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures	Passed through to subrecipients
Direct:				
ARRA – Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	V-99T06101-0	\$ 14,173	\$ —
ARRA – Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	V-99T06101-5	21,757	—
Total ARRA- Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements (66.802)			35,930	—
Total Environmental Protection Agency			62,376	—
Department of Health & Human Services:				
Passed through the State of California Department of Health Services:				
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043	15-10831	22,327	—
Passed through the County of Los Angeles Department of Health Services:				
Public Health Emergency Preparedness	93.069	PH-002224	1,052,274	—
Direct:				
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FK0112-01-00	(416)	—
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	90FK0112-02-00	517,396	237,568
Total Healthy Marriage Promotion and Responsible Fatherhood Grants (93.086)			516,980	237,568
Passed through the State of California Department of Health Services:				
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	MOU	93,764	—
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	MOU	30,356	—
Total Project Grants and Cooperative Agreements for Tuberculosis Control Programs (93.116)			124,120	—
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	14-10023	314,305	—
Immunization Cooperative Agreements	93.268	15-10428	231,645	—
Passed through the State of California Department of Health Services:				
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	15-N-11	50,000	—
Passed through the County of Los Angeles Department of Children and Family Services:				
Promoting Safe and Stable Families	93.556	04-025-14	75,202	52,981
Promoting Safe and Stable Families	93.556	05-027-10	33,152	23,547
Promoting Safe and Stable Families	93.556	05-028-5	58,016	41,208
Total Promoting Safe and Stable Families (93.556)			166,370	117,736
Passed through the State of California Department of Health Services:				
Passed through the County of Los Angeles Department of Public Social Services:				
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program – CALWORKS	93.558	IA0114	377,265	—
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program – FOSTER	93.558	IA0114	29,471	—
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program – CALWORKS	93.558	IA-0510	48,395	—
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program – FOSTER	93.558	99721.5	14,283	—

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures	Passed through to subrecipients
Passed through the State of California Department of Health Services:				
Passed through the County of Los Angeles Department of Public Social Services:				
Passed through the City of Hawthorne/South Bay Workforce Investment Board:				
Temporary Assistance for Needy Families – Calworks Transitional Subsidized Emp Pro	93.558	13-W180	\$ 29,891	\$ —
			499,305	—
Department of Health & Human Services (Continued)				
Passed through the State of California Department of Health Services:				
Passed through the City of Inglewood/South Bay Workforce Investment Board:				
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs Program – CALWORKS	93.558	IA0615	(792)	—
Total TANF Cluster (93.558)			498,513	—
Passed through the State of California Department of Health Services:				
Medical Assistance Program – Childhood Health and Disability	93.778	V#002713-00	491,179	—
Medical Assistance Program – Medical Gateway	93.778	V#002713-00	1,858	—
Medical Assistance Program – MAA/TCM Administration	93.778	14-90021	52,455	—
Passed through the State of California Department of Health Services:				
Medical Assistance Program – Nursing MAA Claiming	93.778	14-90021	42,968	—
Medical Assistance Program – Nursing TCM Claiming	93.778	61-0712	3,522	—
Medical Assistance Program – Nursing TCM Claiming	93.778	61-1318A	146,310	—
Total Medical Assistance Program (93.778)			192,800	—
Total Medicaid Cluster			738,292	—
Passed through the County of Los Angeles Department of Health Services:				
HIV Emergency Relief Project Grants – AIDS EIP Outpatient Medical	93.914	PH-002425-3	49,147	—
HIV Emergency Relief Project Grants – AIDS EIP Outpatient Medical	93.914	PH-002425-4	63,429	—
			112,576	—
Passed through the County of Los Angeles Department of Health Services:				
HIV Emergency Relief Project Grants – AIDS/HIV Benefits Specialty	93.914	PH-002900	135,409	—
HIV Emergency Relief Project Grants – Medical Care Coordination	93.914	PH-002431-2	165,580	—
HIV Emergency Relief Project Grants – Medical Care Coordination	93.914	PH-002431-3	290,365	—
			455,945	—
Total HIV Emergency Relief Project Grants (93.914)			703,930	—
Passed through the State of California Department of Health Services:				
HIV Prevention Activities – Health Department Based	93.917	15-11059	1,270,251	—
HIV Prevention Activities – Health Department Based – Outreach/Prevention for HIV Positive (Bridge)	93.917	15-11059	87,401	—
HIV Prevention Activities – Health Department Based – Outreach/Prevention for HIV Positive (Bridge)	93.917	15-11059	82,066	—
			169,467	—
Total HIV Prevention Activities (93.917)			1,439,718	—



**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures	Passed through to subrecipients
Passed through the State of California Department of Health Services: HIV Prevention Activities – Health Department Based – Counseling and Testing	93.940	14-10964	\$ 468,676	\$ —
Passed through the State of California Department of Health Services: Maternal and Child Health Services Block Grant to the States	93.994	201660	197,264	—
Maternal and Child Health Services Block Grant to the States	93.994	201760	81,750	—
			<u>279,014</u>	<u>—</u>
Passed through the State of California Department of Health Services: Maternal and Child Health Services Block Grant to the States – Black Infant Health	93.994	201660	259,408	3,500
Maternal and Child Health Services Block Grant to the States – Black Infant Health	93.994	201760	77,652	—
			<u>337,060</u>	<u>3,500</u>
Total Maternal and Child Health Services Block Grant to the States (93.994)			<u>616,074</u>	<u>3,500</u>
Total Department of Health & Human Services			<u>6,893,224</u>	<u>358,804</u>
Department of Homeland Security: Passed through United Way of Greater Los Angeles: Emergency Food and Shelter National Board Program	97.024	N/A	9,221	—
Passed through the State of California – California Office of Emergency Services: Passed through the County of Los Angeles – Office of Emergency Management/CEO Office: Emergency Management Performance Grant	97.042	2015-0049	74,286	—
Department of Homeland Security: Direct: Port Security Grant Program	97.056	EMW-2014-PU-00210	613,556	—
Port Security Grant Program	97.056	EMW-2015-PU-00239	970,447	—
Port Security Grant Program	97.056	EMW-2016-PU-00124	635,060	—
Port Security Grant Program	97.056	EMW-2015-PU-00529	558,181	—
Total Port Security Grant Program (97.056)			<u>2,777,244</u>	<u>—</u>
Passed through the State of California – California Office of Emergency Services: Passed through the County of Los Angeles – Chief Executive Office: Homeland Security Grant Program	97.067	2015-00078	344,706	—
Homeland Security Grant Program	97.067	2016-00102	142,528	—
			<u>487,234</u>	<u>—</u>

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures	Passed through to subrecipients
Passed through the State of California – California Office of Emergency Services:				
Passed through the City of Los Angeles Mayor's Office of Public Safety:				
Homeland Security Grant Program – UASI	97.067	2014-00093	\$ 393,113	\$ —
Homeland Security Grant Program – UASI	97.067	2015-00078	8,764,113	—
Homeland Security Grant Program – UASI	97.067	2016-00102	119,350	—
			<u>9,276,576</u>	<u>—</u>
Total Homeland Security Grant Program (97.067)			9,763,810	—
Passed through the City of Los Angeles:				
Securing the Cities Program	97.106	C-124773	57,795	—
Total Department of Homeland Security			<u>12,682,356</u>	<u>—</u>
Total Federal Expenditures			<u>\$ 286,384,417</u>	<u>\$ 6,708,322</u>

See accompanying notes to schedule of expenditures of federal awards and the Independent Auditors' Report on Federal Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.

## CITY OF LONG BEACH, CALIFORNIA

### Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2017

#### **(1) General**

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal financial assistance programs of the City of Long Beach, California (the City). All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through to the City by other government agencies, has been included in the accompanying Schedule. The Schedule does not include federal expenditures of \$13,268,961 for the year ended September 30, 2017 of the Long Beach Transportation Company (LBTC), a discretely presented component unit of the City, as LBTC engaged other auditors to perform audits in accordance with the Uniform Guidance. The City's reporting entity is defined in note 1 to the City's basic financial statements.

#### **(2) Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

#### **(3) Relationship to Federal Financial Reports**

Amounts reported in the accompanying Schedule agree in all material respects with the amounts reported in the related federal financial reports.

#### **(4) Community-Based Loan Programs with Continuing Compliance**

The City considers loans advanced to eligible participants for the Community Development Block /Grant Entitlement Grants (CDBG) and the Home Investment Partnerships Program (HOME) to have continuing compliance requirements. As such, the amounts reported in the accompanying Schedule for the CDBG and HOME programs include current year disbursements as well as the balance as of the beginning of the year of loans with continuing compliance requirements.

As of September 30, 2017 and 2016, the balance of loans with continuing compliance requirements for the HOME programs was \$74,677,676 and \$71,061,099, respectively.

As of September 30, 2017 and 2016, the balance of loans with continuing compliance requirements for the CDBG programs was \$3,759,113 and \$3,720,935, respectively.

#### **(5) Food Instruments/Vouchers**

Food instruments/vouchers expenditures represent the estimated value of the Special Supplemental Nutrition Program for Women, Infants, and Children food instruments as communicated by the State Department of Health Services distributed during the year. The food instruments/vouchers totaled \$13,185,376 but do not represent cash expenditures in the City's basic financial statements for the year ended September 30, 2017.

#### **(6) Indirect Cost Rate**

The City did not elect to use the 10% de minimis indirect cost rate as discussed in the Uniform Guidance Section 200.414. For the sponsored programs where the City claims indirect costs, the City's internal indirect cost rate is used.

**CITY OF LONG BEACH, CALIFORNIA**  
Summary of Findings and Questioned Costs  
Year ended September 30, 2017

**(1) Summary of Auditors' Results**

*Basic Financial Statements*

- (a) The type of report issued on whether the basic financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the basic financial statements:
  - Material weakness(es) identified: **No**
  - Significant deficiencies: **Yes, see 2017-001 and 2017-002**
- (c) Noncompliance material to the basic financial statements: **No**

*Federal Awards*

- (d) Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses identified: **Yes, See 2017-003**
  - Significant deficiencies: **Yes, See 2017-004**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516 (a): **Yes**
- (g) Major programs:
  - Section 8 Housing Choice Vouchers, CFDA number 14.871
  - Home Investment Partnership Program, CFDA number 14.239
  - Continuum of Care, CFDA number 14.267
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

**CITY OF LONG BEACH, CALIFORNIA**  
Summary of Findings and Questioned Costs  
Year ended September 30, 2017

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

**2017-001 – Employee Turnover**

*Criteria*

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described below represents a significant deficiency in internal controls.

*Condition and Context*

During our audit of the City's financial statements, we noted several instances where management had not prepared a schedule until requested for the audit or performed a task until questioned during the audit. Specifically, these related to the computation of annual depletion expense and the reversal of an accrual for gas purchases from years prior to 2015. Neither instances noted were identified through statistical sampling. While neither of the individual items noted were material to the financial statements as whole, the likelihood of similar items is more than remote.

*Repeat Finding from the Previous Year*

The item discussed above was identified in 2017 and is not a repeat finding from the previous year.

*Cause and Effect*

In recent years, there have been vacancies and turnover in key finance and management positions due to various reasons including the allocations of resources to the on-going enterprise risk management project. As a result of these vacancies and turnover, certain tasks and schedules have been inadvertently overlooked and not prepared timely.

*Recommendation*

We recommend that management enhance the existing desk procedures for key individuals in finance and management roles to ensure that the procedures include all necessary items related to accounting and financial reporting, therefore, reducing the likelihood that items would be overlooked in the future.

*Management's Response*

In the past 18 months, the Long Beach Energy Resources Department experienced the involuntary separation of three (out of five) accountants due in part to issues such as the one referenced in the audit finding. In the same time frame, one additional accountant retired. The department has replaced three of the four positions and is actively recruiting the fourth.

The City will seek to enhance its procedures to ensure required schedules are prepared, tasks are performed and entries made in support of proper financial presentation and the audited validation of that presentation. A catalogue and checklist of monthly, quarterly, and annual accounting tasks is being reviewed and updated. Primary and backup staff members are being identified and management will closely monitor these operations for timely completion and accuracy.

**CITY OF LONG BEACH, CALIFORNIA**  
Summary of Findings and Questioned Costs  
Year ended September 30, 2017

**2017-002 – Pension Expense**

*Criteria*

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described below represents a significant deficiency in internal controls.

*Condition and Context*

During our audit of the City's financial statements, we identified two instances where pension expense was not properly stated. Specifically, these instances related to the understatement of city-wide pension expense by \$15.0 million and the misclassification of \$26.0 million of pension expense between the general and employee benefits internal service funds (EBF). Neither item noted was identified as a result of statistical sampling. As a result, adjustments were necessary to properly state the financial statements in accordance with U.S. generally accepted accounting principles.

*Repeat Finding from the Previous Year*

The item discussed above was identified in 2017 and is not a repeat finding from the previous year.

*Cause and Effect*

The City's method for recognition of pension expense is tied to the manner that the City collects pension expense from all funds and departments and how the city records amounts remitted to the pension plan through CalPERS. The City's method requires all funds and departments to submit payment to the EBF each pay period. The EBF then remits these amounts to the pension plan on a regular basis. The amount collected from the funds and departments is determined using a single rate, however, due to the pension plan's year-end of June 30, the rate increased on July 1. Accordingly, the City should use a blended rate to properly collect the amount due over the City's fiscal year. Furthermore, in the current year, the City made an annual lump-sum payment against the existing unfunded pension liability for both of the City's pension plans, which was recorded in its EBF. These payments should have been reflected in pension expense in the respective fund that owes the obligation, not the internal service fund, which made the cash payment.

*Recommendation*

We recommend that management enhance its internal controls and procedures over the process to collect, pay and report pension expense in the fund statements to ensure that the amounts reflected in the financial statements are in accordance with applicable authoritative literature and reflect each funds underlying obligation.

**CITY OF LONG BEACH, CALIFORNIA**  
Summary of Findings and Questioned Costs  
Year ended September 30, 2017

*Management's Response*

The City acknowledges that it's very unique pension reporting situation, caused by the disparity in fiscal year ends of CalPERS and the City, combined with changes in CalPERS funding requirements was the primary cause for this finding. As such, and after consultation with representatives from GASB, we will institute new recording processes that should result in the proper citywide fund statement presentation of pension expense resulting from the lump-sum payments to CalPERS. Additionally, we are developing procedures to capture the 3-month delta between pension expense as reported in the GASB 68 actuarial reports and the total pension expense recorded by the City through its application of by-pay-period collections from participating funds.

**(3) Findings and Questioned Costs Relating to Federal Awards from  
2017-003 – Activities Allowed or Unallowed (Access to Records)**

Federal Program	Home Investment Partnership Program (HOME Program)
Federal Catalog Number	14.239
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Federal Award Number	M-11-MC-06-0518
Federal Award Year	2011 – 2013

*Criteria*

Per CFR 92.205, HOME Program funds may be used by a participating jurisdiction to provide, among other things, interest-bearing loans or advances and non-interest-bearing loans. Additionally, per 2 CFR part 200, subpart D, section 200.303, the nonfederal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. Additionally, Chapter 6 of the HUD and CDBG Guidebook also requires that each entity participating in the HOME program have a financial management system that protects funds, property and other assets against loss or misuse.

*Condition*

We found that management of the City's HOME Program identified 6 copies of loan agreements totaling approximately \$3.7 million which had been altered for one borrower participating in the HOME program's Multi-Family Loan Program. When management compared the copies of the loan documents in the HOME Program files to the original copies of the loan agreements kept in a vault, management noted that the grace period for loan repayments due date for the six loans as well as the final due date of each loan had been extended up to 10 years in the altered copies of the loan documents. While the borrower does have other loans through the HOME program still outstanding, only the loans with altered loan agreements noted above are currently past due.

*Questioned Costs*

None

**CITY OF LONG BEACH, CALIFORNIA**  
Summary of Findings and Questioned Costs  
Year ended September 30, 2017

*Cause and Effect*

The altered copies of the loan documents appears to be made possible due to insufficient access controls at the City to limit access to the HOME Programs loan files which resulted in the discrepancies noted above. However, the City did maintain the original loan agreements in a vault which there were able to use to determine the discrepancies noted above.

*Statistical Sampling*

None

*Prior Year Repeat Finding*

No

*Recommendation*

We recommend that the City strengthen its controls in the HOME program to limit the number of people that have access to the copies of the HOME program loan files.

*Views of Responsible Officials*

Existing City of Long Beach controls in place that helped to identify the noted inconsistencies by the City included:

1. Original loan promissory note with wet signature is kept in vault in City Hall. The vault is secured and maintained by the City Clerk;
2. Prior to the original loan promissory note being placed in vault, copies of it are made for the following:
  - The Borrower
  - The Working File
  - The Administrative & Financial Services Bureau File
  - The HOME Monitoring File
3. Once copies are made for the above purposes, the original loan document has restricted, supervised access controlled by the City Clerk's Office and are only accessible by request.
4. The Administrative & Financial Services Bureau and HOME Monitoring copies are assigned under the custody of separate staff members as needed for their work assignments.
5. The Working File is in the custody of the Loan Officer until the funded projects are completed and closed. Once the project is completed, the file is sent to Iron Mountain for storage.

When the alleged fraud issue was discovered, the existing control system did detect a discrepancy in loan information between the Working File copies and original.



**CITY OF LONG BEACH, CALIFORNIA**  
Summary of Findings and Questioned Costs  
Year ended September 30, 2017

The City, since this incident was noted, thoroughly reviewed all other loans with this borrower and found that six out of 22 Working File loan promissory notes were altered. In addition, the City has hired an outside, independent auditing firm to check all outstanding Multi-Family Loan files as well a sample selection of all remaining HOME Program loans. Results of the external review will be used to validate loan amounts, loan origination dates, and loan initial and final payment dates against the loan database. As far as control is concerned, the City has acted to further enhance controls to adequately secure and monitor all files (HOME Monitoring, Administrative & Financial Services Bureau and Working Files).

**2017-004 – Payments to Terminated Participants**

Federal Program	Housing Choice Vouchers
Federal Catalog Number	14.871
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Federal Award Number	CA068VO
Federal Award Year	2017

*Criteria*

Subsection 3-5 of Section 1 in Chapter 3 of the HUD Occupancy Handbook requires participants in the Housing Choice Voucher program to meet certain eligibility requirements to receive occupancy and housing assistance. Additionally, Section 1 of Chapter 8 of the HUD Occupancy Handbook provides the guidelines that public housing authorities are supposed to use when terminating assistance provided to participants in the program.

*Condition*

We noted that in our sample of 40 participants that were terminated from the Housing Choice Voucher program, 2 participants received HAP distributions which were not recovered by the City.

*Questioned Costs*

The total questioned costs are \$2,437, which represent the total amount uncollected payments to terminated participants.

*Cause and Effect*

The uncollected over payments to terminated participants appears to be due to insufficient internal controls at the City to follow up on overpaid amounts when participants are terminated from the program.

*Statistical Sampling*

None

**CITY OF LONG BEACH, CALIFORNIA**  
Summary of Findings and Questioned Costs  
Year ended September 30, 2017

*Prior Year Repeat Finding*

No

*Recommendation*

We recommend that the City strengthen its controls in HCV program to ensure that any overpayments to participants that have been terminated from the program are collected by the City.

*Views of Responsible Officials*

The City will review and modify its procedures regarding the collection of paid amounts related to terminated clients in the Housing Choice Voucher Program (HCV). In order to ensure quality control and program integrity, designated staff will conduct reviews.



KPMG LLP  
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City Council  
City of Long Beach  
Long Beach, California

Ladies and Gentlemen:

We have audited the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 26, 2018. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditor. We also issued separate audit reports for the City's Harbor and Water departments. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

#### **Our Responsibility Under Professional Standards**

We are responsible for forming and expressing opinions about whether the financial statements, that have been prepared by management with the oversight of the City of Long Beach's City Council (the City Council), are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (AICPA) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the City Council of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control. However, our required communications have been provided to you in writing, over any significant deficiencies in internal control identified during our audit and have been provided to you under separate cover.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the City Council in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.



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City of Long Beach, California  
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## **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the City's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the City's Comprehensive Annual Financial Report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

## **Accounting Practices and Alternative Treatments**

*Significant Accounting Policies are Described in Note 2 to the Financial Statements*

As discussed in Note 2 to the City's financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatements*, GASB Statement No. 80, *Blending Requirements for Certain Components*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 82, *Pension Issues- an amendment of GASB Statements No. 67, No. 68 and No. 73*, GASB Statement No. 84, *Fiduciary Activities* and GASB Statement No. 85, *Omnibus 2017* during the year ended September 30, 2017.

*Qualitative Aspects of Accounting Practices*

We have discussed with the City Council and management our judgments about the quality, not just the acceptability, of the City's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the City's accounting policies and their application, and the understandability and completeness of the City's financial statements, which include related disclosures.

## **Management Judgments and Accounting Estimates**

The preparation of the financial statements requires management of the City to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Management's estimate of the Pension and Other Post Employment Benefit (OPEB) liabilities include several estimates including but not limited to discount rates, mortality rates and medical health care rates and are actuarial determined liabilities. Management's estimates of the useful lives of capital assets and the collectability of receivables is based on historical patterns in the usage of assets and customer collectability. Management's estimate of investments includes valuation estimates of the underlying securities and these valuation estimates are typically based on quoted marked prices. Lastly, management's estimate of workers compensation and general liabilities are actuarially determined and include several estimates including but not limited to projected future claims, claims incurred but not reported, and projects claim costs. We evaluated the appropriateness of these estimates, including possible management bias in developing the estimates, and determined that they were reasonable in relation to the financial statements as a whole.

## **Uncorrected and Corrected Misstatements**

*Uncorrected Misstatements*

In connection with our audit of the City's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the City's books and records as of and for the year ended September 30, 2017. We have reported such misstatements to management on a Summary of Audit Misstatements and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the



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aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.

#### *Corrected Misstatements*

During the course of our audit, we identified and discussed with management a material financial statement misstatement that was corrected by the City. Specifically, we proposed a correction relating to presentation of pension expense in the general fund and employee benefits internal service fund that if not corrected would have caused the City's governmental fund financial statements to have been materially misstated. This correction was caused by a significant deficiency in internal control over financial reporting which we communicated to you in a report a report dated March 26, 2018 (see "Other Reports" section below).

#### **Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' report on the City's financial statements.

#### **Management's Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2017.

#### **Significant Issues Discussed, or Subject to Correspondence, with Management**

##### *Major Issues Discussed with Management Prior to Retention*

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

##### *Material Written Communications*

Attached to this letter please find copies of the following material written communications between management and us:

1. Engagement letter; and
2. Management representation letter.

#### **Significant Difficulties Encountered During the Audit**

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

#### **Other Reports and Significant Findings or Issues**

In connection with our audit of the City's financial statements, we issued an Independent Auditors' 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* (the GAS Report) dated March 26, 2018. The GAS Report identified deficiencies in internal control over the reporting of pension expense and errors related to employee turnover that we considered to be significant deficiencies.

We also audited the City's federal awards for the year ended September 30, 2017, in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and issued an Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of



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Federal Awards required by the Uniform Guidance (the Uniform Guidance Report) dated July 2, 2018. In the Uniform Guidance Report, we identified two compliance findings both considered significant deficiencies in internal control over compliance. The first finding related to 6 copies of loan agreements in the City's HOME Program which had been altered for one borrower participating in the Home program's Multi-Family Loan Program. The other finding related to payments made to 2 out of the 40 participants tested which received payments after the participants had been terminated from the program. Management responded to both findings in the Uniform Guidance Report and has created a corrective action plan to address the control deficiencies noted in the Uniform Guidance Report.

The GAS and Uniform Guidance Reports were provided to you under separate cover.

**Independence**

We are not aware of any additional relationships between our firm and the Company and persons in a financial reporting oversight role at the Company that may reasonably be thought to bear on independence other than those that previously have been communicated to the City Council and the professional services that have been provided to the City during the year ended September 30, 2017, which are summarized below.

The fees paid or payable to our firm relating to our audit of the City's 2017 financial statements and single audit was \$857,000.

*Confirmation of Audit Independence*

We hereby confirm that as of July 26, 2018, we are independent accountants with respect to the City under relevant professional and regulatory standards.

\* \* \* \* \*

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

Very truly yours,

**KPMG LLP**

Irvine, California  
July 26, 2018



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kpmg.com

November 15, 2017

City of Long Beach  
333 West Ocean Boulevard, 8<sup>th</sup> Floor  
Long Beach, California 90802

Attention: Laura Doud, City Auditor

Ladies and Gentlemen:

This letter (the Engagement Letter) is incorporated by reference to the agreement between the City of Long Beach (the City) and KPMG LLP dated February 15, 2017, the third amendment to agreement No. 33203 (the Agreement) and confirms our understanding of our engagement to provide professional services to the City. The Engagement Letter and the Agreement, including all exhibits, constitutes the entire understanding between the parties and supersedes all other agreements, oral or written, with respect to the subject matter in this Engagement Letter and Agreement. The parties agree that in the event of a conflict between Agreement and the Engagement Letter, the Agreement shall take precedence, except to the extent that the Agreement conflicts with applicable professional standards.

#### **Objectives and Limitations of Services**

##### *Financial Statement Audit Services*

You have requested that we audit the City's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud, to provide a reasonable basis for our opinion on the financial statements. We also will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements will be planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Also, an audit is not designed to detect matters that are



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immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to detect abuse.

We will also perform certain limited procedures to the required supplementary information as required by auditing standards generally accepted in the United States of America. However, we will not express an opinion or provide any assurance on the information. Our report relating to the financial statements will include our consideration of required supplementary information.

We also understand that the financial statements will include a separately issued schedule of expenditures of federal awards (SEFA) which is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information will be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America with the objective of expressing an opinion as to whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Subject to the remainder of this paragraph, we will issue a written report upon completion of our audit of the City's financial statements addressed to the City Council of the City. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion(s), add emphasis-of-matter or other-matter paragraphs or withdraw from the engagement. If, during the performance of our audit procedures such circumstances arise, we will communicate to the City Council our reasons for modification or withdrawal.

If the City issues an annual report that is available to the public and the annual report contains the audited financial statements and our report thereon, management agrees to provide KPMG LLP (KPMG) a draft of such annual report prior to the report release date of the audited financial statements or, if that is not possible, as soon as practicable prior to the release of the annual report. We will read the other information contained in the annual report in order to identify material inconsistencies, if any, with the audited financial statements. However, we will not perform procedures to corroborate the other information.

#### *Internal Control over Financial Reporting and Compliance and Other Matters*

In making our risk assessments as part of planning and performing our audit of the financial statements, we will consider the City internal control relevant to the preparation and fair presentation of the financial statements in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

The objective of our audit of the financial statements is not to report on the City internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect





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on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. This report will include any material weaknesses and significant deficiencies to the extent they come to our attention, and this report will also include instances of:

- Fraud and noncompliance with provisions of laws or regulations that have a material effect on the financial statements or other financial data significant to the audit objectives and any other instances that warrant the attention of those charged with governance;
- Noncompliance with provisions of contracts or grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives; or
- Abuse that is material, either quantitatively or qualitatively.

The report will describe its purpose and will state that it is not suitable for any other purpose.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate instances of noncompliance with provisions of contracts or grant agreements or abuse that have an effect on the financial statements that are less than material but warrant the attention of those charged with governance.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the auditee.

#### *Uniform Guidance Audit Services*

We will also perform audit procedures with respect to the City's major federal programs in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("the Uniform Guidance"). The Uniform Guidance includes specific audit requirements, mainly in the areas of internal control and compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of the City's major federal programs that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of the Uniform Guidance, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of the City's major federal programs. The tests of internal control performed in accordance with the Uniform Guidance are less in scope than would be necessary to render an opinion on internal control.

We will perform tests of the City's compliance with federal statutes, regulations, and the terms and conditions of federal awards we determine to be necessary based on the *OMB Compliance Supplement*. The procedures outlined in the *OMB Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.



City of Long Beach  
November 15, 2017  
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In addition, we will prepare a written report (single audit report) which 1) provides our opinion on the City's compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major federal programs and 2) communicates our consideration of internal control over major federal programs. The single audit report will describe its purpose and will state that it is not suitable for any other purpose.

The Federal Audit Clearinghouse requires the single audit reporting package, which includes the audited financial statements, to be submitted in a PDF format which is text searchable, unencrypted, and unlocked. This letter serves as the City's authorization for the submission of the reporting package in this format.

#### *Offering Documents*

Should the City wish to include or incorporate by reference these financial statements and our audit report thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our report on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the City wish to include or incorporate by reference these financial statements and our audit report thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report on such financial statements, and we are not otherwise associated with the offering document, then the City agrees to include the following language in the offering document:

"KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement."

#### **Our Responsibility to Communicate with the City Council**

We will report to the audit committee or those charged with governance, in writing, the following matters:

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.
- Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinion in the auditor's report, and the effect of uncorrected misstatements related to prior periods.
- Significant difficulties and disagreements with management, if any, encountered during our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of relevant committee meetings for consistency with our understanding of the communications made to the City Council and determine that the City Council has received copies of all



City of Long Beach  
November 15, 2017  
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material written communications between ourselves and management. We will also determine that the City Council has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the City Council illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

### **Management Responsibilities**

The management of the City acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for:

- identifying and ensuring that the City complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known material violations of such laws, regulations and provisions of contracts and grant agreements;
- providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or single audit report within 14 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report, the report will indicate the status of management's responses;
- distributing the reports issued by KPMG.

Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

The management of the City also acknowledges and understands that they have responsibility for the preparation of the SEFA and supplementary information in accordance with the applicable criteria. Management is also responsible for providing us written representations regarding the supplementary information. Management is also responsible for including our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information, and for including the audited financial statements with any presentation of the supplementary information that includes our report thereon or making the audited financial statements readily available to intended users of the supplementary information no later than the date the supplementary information is issued with our report thereon.



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Management of the City also acknowledges and understands that it is their responsibility to provide us with: i) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements and the compliance requirements applicable to its federal programs such as records, documentation, and other matters; ii) additional information that we may request from management for purposes of the audits; and iii) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. As required by auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon, taken as a whole. Because of the importance of management's representations to the effective performance of our services, the City will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

In relation to compliance with the program requirements applicable to its federal programs, management acknowledges and understands its responsibility for:

- Identifying the City's government programs and understanding and complying with the compliance requirements.
- Establishing and maintaining effective controls that provide reasonable assurance that the City administers government programs in compliance with the compliance requirements.
- Evaluating and monitoring the City's compliance with the compliance requirements.
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.

In addition to the Uniform Guidance requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, the Uniform Guidance also requires the City to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Parts I and II).

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.



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Certain provisions of the Uniform Guidance allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.

To facilitate our audit planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2017.

#### **Non-audit service - Assistance in Preparing Financial Statements**

We will assist management in preparing the financial statements and related notes in accordance with U.S. generally accepted accounting principles. We will use the draft financial statements provided by management to assist management in preparing the financial statements and related notes by providing word processing and reproduction assistance..

Our responsibility is to assist management in preparing the financial statements and related notes using the information provided by management. We will not assume management responsibilities on behalf of the City. However, we will provide advice and recommendations to assist management of the City in performing its responsibilities.

The City agrees to:

- Assume all management responsibilities, including determining the accuracy and completeness of the financial statements and notes.
- Assign a suitable employee with appropriate skills, knowledge and/or experience to oversee the financial statement preparation assistance and evaluate the adequacy and results of the services.
- Accept responsibility for the results of the financial statement preparation assistance.

#### ***Use of Internal Audit***

Management acknowledges and understands that internal auditors providing direct assistance to us will be allowed to follow our instructions and that personnel of the City will not intervene in the work the internal auditor performs for us. Further, management acknowledges and understands that if, in our sole judgment, we believe the objectivity of internal auditors providing direct assistance to us has been impaired, we will be unable to use the work performed or planned to be performed.

*Government Auditing Standards* require external and internal auditors to meet minimum Continuing Professional Education (CPE) hours. Therefore, management is responsible for monitoring and documenting the compliance with the *Government Auditing Standards* CPE hours of those internal auditors assigned to the audit in direct assistance roles.

#### **Dispute Resolution**

Dispute resolution is governed by the Agreement 33203 and all related amendments.



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#### **Other Matters**

In the event that any term or provision of this Engagement Letter shall be held to be invalid, void or unenforceable, then the remainder of the Engagement Letter shall not be affected, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the City and between KPMG and outside specialists or other entities engaged by either KPMG or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the City hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of the City solely for presentations or reports to the City or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

The audit documentation for this engagement is the property of KPMG. If KPMG receives a subpoena; other validly issued administrative, judicial, government or investigative regulatory demand or request; or other legal process requiring it to disclose the City's confidential information ("Legal Demand"), KPMG shall, unless prohibited by law or such Legal Demand, provide prompt written notice to the City of such Legal Demand in order to permit it to seek a protective order. So long as KPMG gives notice as provided herein, KPMG shall be entitled to comply with such Legal Demand to the extent required by law, subject to any protective order or the like that may have been entered in the matter. In the event KPMG is requested or authorized by the City, or is required by law, rule, regulation or Legal Demand in a proceeding or investigation to which KPMG is not a named party or respondent, to produce KPMG's documents or personnel as witnesses or for interviews, or otherwise to make information relating to the service under the Engagement Letter available to a third party, or the City, the City shall reimburse KPMG for its professional time, at its then-current standard hourly rates, and expenses, including reasonable attorneys' fees and expenses, incurred in producing documents or personnel or providing information pursuant to such requests, authorizations or requirements.

Pursuant to *Government Auditing Standards*, and subject to applicable provisions of laws and regulations, we are required to make certain audit documentation available in a full and timely manner to others, including Regulators, upon request. In addition, we may also be requested to make certain audit documentation available to Regulators pursuant to authority provided by law or regulation. If so requested, access to such audit documentation will be provided. Furthermore, Regulators may obtain copies of selected audit documentation. Such regulators may intend, or decide, to distribute the copies or information contained therein to others, including other government agencies.

KPMG, as an accounting firm, has an obligation to comply with applicable professional standards. Certain professional standards, including AICPA Code of Professional Conduct Section 1.700, "Confidential Client Information Rule," adopted by the American Institute of Certified Public Accountants and similar rules adopted by the boards of accountancy of many states, prohibit the disclosure of client confidential information without



City of Long Beach  
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client consent, except in limited circumstances. KPMG represents to the City that KPMG will treat the City's confidential information in accordance with applicable professional standards.

KPMG may work with and use the services of other members of the international KPMG network of independent firms and entities controlled by, or under common control with, one or more KPMG member firms (together with KPMG, the "KPMG Firms") to provide services to the City. In connection with the performance of services under this Engagement Letter, the KPMG Firms may, in their discretion, utilize the services of third party service providers within or outside of the United States to complete the services under this Engagement Letter. KPMG Firms and such third parties may have access to your confidential information from offshore locations. In addition, KPMG uses third party service providers within and outside of the United States to provide, at its direction, back-office administrative and clerical services to KPMG and these third party service providers may in the performance of such services have access to your confidential information. KPMG represents that it has technical, legal and/or other safeguards, measures and controls in place to protect your confidential information from unauthorized disclosure or use.

You also understand and agree that the KPMG Firms, with the assistance of third parties as outlined above, may use your confidential information obtained to complete this engagement for other purposes, such as improving the delivery of audit and other services to you and to other clients and for use in presentations to you, other clients and non-clients. When your confidential information is used outside of the KPMG Firms or third parties discussed above for any purpose other than the provision of audit or other services to you, back-office administrative and clerical services to KPMG or service quality improvement, it will be de-identified so that the City cannot be attributed as the source of the information.

Except as otherwise provided for in this Engagement Letter, neither party may assign, transfer or delegate any of its rights, obligations, claims or proceeds from claims arising under or relating to this Engagement Letter (including by operation of law, in which case the assigning party will, to the extent legally permissible, give as much advance written notice as is reasonably practicable thereof) without the prior written consent of the other party, such consent not to be unreasonably withheld. Any assignment in violation hereof shall be null and void.

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

*Additional Reports and Fees for Services*

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed under this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

\*\*\*\*\*

Our engagement herein is for the provision of annual audit services for the financial statements and the Uniform Guidance for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this letter we will provide the services set forth in Appendix I as a single engagement for each of the City's subsequent fiscal years until either those charged with governance or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by those charged with governance.





City of Long Beach  
November 15, 2017  
Page 10 of 10

This Engagement Letter and any exhibits, attachments and appendices hereto, and amendments thereto agreed in writing by the parties, shall constitute the entire agreement between KPMG and the City with respect to the subject matter hereof and thereof, and supersede all other previous oral and written representations, understandings or agreements relating to the subject matter of this agreement.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Very truly yours,

KPMG LLP

Chris Ray  
Partner

CBR:bw:glb:T1585

Enclosures

cc: Patrick West, City Manager, City of Long Beach  
Amy Webber, City Attorney, City of Long Beach  
John Gross, Director of Finance, City of Long Beach

ACCEPTED

City of Long Beach

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Authorized Signature

City Auditor  

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Title

12/18/17  

---

Date



### Fees for Services

Based upon our discussions with and representations of management, our fees for services we will perform are estimated as follows:

Audit of financial statements and related notes to the financial statements of the City of Long Beach as of and for the years ended September 30, 2017 (CAFR)*	\$482,300
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Other Reports:

The other reports that we will issue as part of and upon completion of this engagement are as follows:

Report	Fee
Reports issued in connection with the Uniform Guidance	\$155,000
Schedule of Passenger Facility Charges, Revenues and Expenses of the City of Long Beach Airport	\$ 21,300
Harbor Department financial statements	\$136,800
Water Department financial statements	\$ 61,600

\*The estimated fees for the audit of the City's financial statements assumes the City Auditor or another firm will continue to perform the cash and investment testwork they performed in fiscal 2016.

\*\*The fee estimate for the single audit is based on the assumption that no more than 6 major programs will be required to be audited for fiscal year 2017. An additional fee of \$26,655 will be billed for each additional program required to be audited.

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. Expenses for items such as travel, telephone, postage, typing, printing, and reproduction of the financial statements are estimated included in the above estimate. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

All fees, charges and other amounts payable to KPMG under the Engagement Letter do not include any sales, use, excise, value added, income or other applicable taxes, tariffs or duties, payment of which shall be the City's sole responsibility, excluding any applicable taxes based on KPMG's net income or taxes arising from the employment or independent contractor relationship between KPMG and its personnel.



**Peer Review Program**  
Administered by the National Peer Review Committee

American Institute of CPAs  
220 Leigh Farm Road  
Durham, NC 27707-8110

December 11, 2014

John B Veihmeyer, CPA  
KPMG LLP  
345 Park Ave  
New York, NY 10154

Dear Mr. Veihmeyer:

It is my pleasure to notify you that on December 11, 2014 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2017. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,

Larry Gray  
Chair, National Peer Review Committee  
nprc@aicpa.org 919 402.4502

cc: Keith Robert Rowden; Thomas W Whittle

Firm Number: 10054128

Review Number 359579

Letter ID: 945097



## System Review Report

To the Partners of KPMG LLP  
And the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, audits of a carrying broker-dealers, and examinations of services organizations [Service Organizations Control (SOC 1) engagements].

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended March 31, 2014, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

*PricewaterhouseCoopers LLP*

December 5, 2014



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6<sup>th</sup> Floor • Long Beach, CA 90802 • (562) 570-6465 • Fax (562) 570-5836

March 26, 2018

KPMG, LLP  
20 Pacific  
Suite 700  
Irvine, CA 92618  
Attn: Chris Ray

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the related notes to the financial statements, of the City of Long Beach, California, (the City) as of and for the year ended September 30, 2017, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in accordance with U.S. generally accepted accounting principles.

Certain representations in this letter are described as limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief as of March 26, 2018, the

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 11, 2017, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.
  - b. Additional information that you have requested from us for the purpose of the audit;

- c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence; and
  - d. All minutes of the meetings of City Council, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees or others concerning noncompliance with laws and regulations in any jurisdiction, or deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.
4. There are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
5. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
6. There are no side agreements or other arrangements (either written or oral).
7. All events subsequent to the date of the statement of net position and through the date of this letter for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
9. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
10. The effects of the uncorrected financial statement misstatements summarized in the accompanying schedule(s) are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.
11. We acknowledge our responsibility for the design, implementation, and maintenance of programs and controls to prevent, deter, and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term "fraud" is defined as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties,


involving the use of deception that results in a misstatement in financial statements that are the subject of an audit.

12. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the [City's] ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265.07, *Communicating Internal Control Related Matters Identified in an Audit*.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
9. We have no knowledge of any fraud or suspected fraud affecting the City involving:
  - a. Management
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
10. We have no knowledge of any regarding allegations of fraud or suspected fraud affecting the City's financial statements communicated by employees, former employees, regulators, or others.
11. We have no knowledge of any officer or City Council Member of the City, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
12. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
13. We have disclosed to you the identity of our related parties and all the related party relationships and transactions of which we are aware.
14. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the City is contingently liable.
  - c. The existence of and transactions with joint ventures and other related organizations.

15. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
16. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
17. The City's reporting entity includes all entities that are component units of the City.
18. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the City's current period financial statements [and our assessment of internal control over financial reporting], and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements [and our assessment of internal control over financial reporting] is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.
19. We acknowledge our responsibility for the presentation of the required supplementary information which includes, management's discussion and analysis, budgetary comparison information and the schedule of OPEB contributions, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
  - a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.
  - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate.
20. The City has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The City complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the City has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
21. We acknowledge our responsibility for the presentation of the supplementary information, which includes the additional financial section and other supplementary information, in accordance with the applicable criteria and:
  - Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria.

- The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period; and
  - The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.
22. In accordance with Government Auditing Standards, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
23. The projected employer contributions in the discount rate calculation are prepared in accordance with paragraphs 37-39 of GASB Statement 75.
24. The projected employer contributions in the discount rate calculation are prepared in accordance with paragraphs 27-29 of GASB Statement 68.
25. The City has disclosed all tax abatement agreements required to be disclosed under GASB Statement No. 77, Tax Abatement Disclosures.
26. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
27. Except as disclosed to you in writing, there have been no circumstances that have resulted in communications from the City's external legal counsel to the City reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the City or any agent thereof.
28. The City has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Very truly yours,



PATRICK H. WEST  
CITY MANAGER



JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT



City of Long Beach  
Government Activities  
Summary of Uncorrected Audit Misstatements  
9/30/2017

Correcting Entry Required at Current Period End					Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)								
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows	
				A		B	C-A (Only Income Statement accounts)	C-B								
AD <2>	Effective Interest Rate	Factual	Unamortized Bond premium/discount Interest Expense	4,548,698	(4,548,698)		(4,548,698)	(4,548,698)	(4,548,698)						4,548,698	
AD <4>	NPL Reclassification	Factual	Other long term liabilities Net Pension Liability	7,634,000	(7,634,000)										7,634,000 (7,634,000)	
AD <5>	Advance CalPERS payment	Factual	Pension Expense Transfers In	4,015,112	(4,015,112)		4,015,112 (4,015,112)	4,015,112 (4,015,112)	4,015,112 (4,015,112)							
Aggregate of uncorrected audit differences (before tax)						-	(4,548,698)	(4,548,698)	(4,548,698)	-	-	-	-	-	4,548,698	
Aggregate of uncorrected audit differences (after tax)															4,548,698	
Financial statement amounts (per final financial statements)									87,808,000	(41,595,000)	511,396,000	1,268,693,000	300,941,000	(196,636,000)	(1,640,525,000)	(202,274,000)
									-5.18%	10.94%	0.00%	0.00%	0.00%	0.00%	-0.28%	

City of Long Beach  
 Business-Type Activates  
 Summary of Uncorrected Audit Misstatements  
 9/30/2017

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)						
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows
				A		B	C=A (Only Income Statement accounts)	C-B							
<b>Internal Service Funds</b>															
AD <4>	ERP implementation Costs	Factual	Capital Assets Maintenance and Other	9,000,000	(9,000,000)		(9,000,000)	(9,000,000)	(9,000,000)		9,000,000				
AD <5>	Advance CalPERS payment	Factual	Transfers Out Pension Expense	4,015,112	(4,015,112)		4,015,112 (4,015,112)	4,015,112 (4,015,112)	4,015,112 (4,015,112)						
<b>All proprietary funds</b>															
AD <6>	Pension Expense	Factual	Pension Expense Due to Employee Benefits Fund	12,174,539	(12,174,539)		12,174,539	12,174,539	12,174,539	(12,174,539)					
<b>Gas Utility</b>															
AD <1>	OPEB Discount Rate	Projected	OPEB Expense Net OPEB Liability	195,681	(195,681)		195,681	195,681	195,681					(195,681)	
AD <2>	Accrual reversed in wrong period	Factual	Purchases of Gas & Water Net Assets- Beginning of year	1,341,656	(1,341,656)		1,341,656	1,341,656	1,341,656	(1,341,656)					
<b>Water Utility</b>															
AD W<1>	PP&E Adjustment	Projected	Property, plant and equipment Unrestricted Net Assets Depreciation	2,464,940	(2,304,794) (160,146)		(160,146)	(160,146)	(2,304,794) (160,146)		2,464,940				
<b>Tidelands Oil</b>															
AD <6>	Pension Expense	Factual	Pension Expense Due to Employee Benefits Fund	426,357	(426,357)		426,357	426,357	426,357				(426,357)		
<b>Harbor Fund</b>															
Harbor AD <1>	Revenue Recognition Adjustment	Factual	Unrestricted net assets Due from other governments	5,025,209	(5,025,209)	0	0	0	5,025,209	0	0	0	0	0	0
AD <6>	Pension Expense	Factual	Pension Expense Due to Employee Benefits Fund	4,092,314	(4,092,314)		4,092,314	4,092,314	4,092,314				(4,092,314)		
AM-5	PY Capitalized Interest	Factual	Structures and Facilities Depreciation and amortization Invested in capit assets, net of related debt	15,280,853 318,351	(4,092,314) (15,599,204)	15,280,853	318,351	(15,280,853) 318,351	15,280,853 318,351						
Aggregate effect of uncorrected audit misstatements (before tax):						15,280,853	9,388,752	(5,892,101)	(4,831,693)	(1,918,895)	11,464,940	0	(4,518,671)	(195,681)	0
Aggregate effect of uncorrected audit misstatements (after tax):						15,280,853	9,388,752	(5,892,101)	(4,831,693)	(1,918,895)	11,464,940	0	(4,518,671)	(195,681)	0
Financial statement amounts (per final financial statements) (after tax):								(142,891,000)	(4,856,771,000)	804,891,000	7,451,751,000	122,333,000	(286,117,000)	(2,631,147,000)	(604,940,000)
Uncorrected audit misstatements as a percentage of financial statement amounts (after tax):								4.12%	0.10%	(0.24%)	0.15%	0.00%	1.58%	0.01%	0.00%

City of Long Beach  
 General Fund  
 Summary of Uncorrected Audit Misstatements  
 9/30/2017

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)				
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Assets	Deferred Outflows	Liabilities	Deferred Inflows
				A		B	C=A (Only Income Statement accounts)	C-B					
	None						-	-	-				

City of Long Beach  
Gas Utility Fund  
Summary of Uncorrected Audit Misstatements  
9/30/2017

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)							
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows	
				A		B	C-A (Only Income Statement accounts)	C-B								
AD <1>	OPEB Discount Rate	Projected	OPEB Expense Net OPEB Liability	195,681	(195,681)		195,681	195,681	195,681					(195,681)		
AD <2>	Accrual reversed in wrong period	Factual	Purchases of Gas & Water Net Assets- Beginning of year	1,341,656	(1,341,656)		1,341,656	1,341,656	1,341,656							
AD <6>	Pension Expense	Factual	Pension Expense Due to Employee Benefits Fund	1,576,774	(1,576,774)		1,576,774	1,576,774	1,576,774				(1,576,774)			
Aggregate of uncorrected audit differences (before tax)						-	3,114,111	3,114,111	1,772,455	-	-	-	(1,576,774)	(195,681)	-	
Tax effect of uncorrected audit differences																
Aggregate of uncorrected audit differences (after tax)									3,114,111	1,772,455	-	-	(1,576,774)	(195,681)	-	
Financial statement amounts (per final financial statements)									7,707,000	5,440,000	76,369,000	1,165,175,000	22,027,000	(31,602,000)	(661,910,000)	(575,499,000)
Uncorrected audit differences after tax effect as a percentage of financial statement amounts									32.6%	32.6%	0.0%	0.0%	0.0%	5.0%	0.0%	0.0%



Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)						
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows
				A		B	C=A (Only Income Statement accounts)	C-B							
AD <6>	Pension Expense	Factual	Pension Expense Due to Employee Benefits Fund	2,043,425	(2,043,425)		2,043,425	2,043,425	2,043,425					(2,043,425)	
			Aggregate of uncorrected audit differences (before tax)			-	2,043,425	2,043,425	2,043,425	-	-	-	-	(2,043,425)	-
			Tax effect of uncorrected audit differences							-	-	-	-		-
			Aggregate of uncorrected audit differences (after tax)				2,043,425	2,043,425	2,043,425					(2,043,425)	
			Financial statement amounts (per final financial statements)				10,304,000	(314,334,000)	215,520,000	391,526,000	23,125,000	(29,143,000)	(280,272,000)	(6,422,000)	
			Uncorrected audit differences after tax effect as a percentage of financial statement amounts				19.8%	-0.7%	0.0%	0.0%	0.0%	7.0%	0.0%	0.0%	0.0%

City of Long Beach  
Tideland Oil  
Summary of Uncorrected Audit Misstatements  
9/30/2017

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)						
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows
				A		B	C-A (Only Income Statement accounts)	C-B							
AD <2>	Depreciation	Factual	Depreciation Expense Accumulated Depreciation	634,996	(634,996)		634,996	634,996	634,996		(634,996)				
AD <6>	Pension Expense	Factual	Pension Expense Due to Employee Benefits Fund	426,357	(426,357)		426,357	426,357	426,357				(426,357)		
			Aggregate of uncorrected audit differences (before tax)			-	1,061,353	1,061,353	1,061,353	-	(634,996)	-	(426,357)	-	-
			Tax effect of uncorrected audit differences						-	-	-	-	-	-	-
			Aggregate of uncorrected audit differences (after tax)						1,061,353	1,061,353	(634,996)		(426,357)		
			Financial statement amounts (per final financial statements)						26,354,000	84,051,000	44,176,000	12,532,000	2,196,000	(20,638,000)	(121,564,000)
			Uncorrected audit differences after tax effect as a percentage of financial statement amounts						4.0%	1.3%	0.0%	-5.1%	0.0%	2.1%	0.0%

City of Long Beach  
Harbor  
Summary of Uncorrected Audit Misstatements  
9/30/2017

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)							
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from prior period)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows	
				A		B	C=A (Only Income Statement accounts)	C-B								
Harbor AD <1>	Revenue Recognition Adjustment	Factual	Unrestricted net assets	5,025,209		0	0	0	5,025,209	0	0	0	0	0	0	
			Due from other governments	0	(5,025,209)	0	0	0	0	(5,025,209)	0	0	0	0	0	0
AD <6>	Pension Expense	Factual	Pension Expense Due to Employee Benefits Fund	4,092,314	(4,092,314)		4,092,314	4,092,314	4,092,314				(4,092,314)			
AM-5	PY Capitalized Interest	Factual	Structures and Facilities Depreciation and amortization Invested in capit assets, net of related debt	15,280,853 318,351			318,351	318,351	318,351		15,280,853					
						0	4,410,665	4,410,665	(6,163,330)	(5,025,209)	15,280,853		(4,092,314)		0	
						0	4,410,665	4,410,665	(6,163,330)	(5,025,209)	15,280,853	0	(4,092,314)		0	
									(146,110,000)	(3,926,137,000)	587,256,000	4,767,660,000	42,088,000	(166,004,000)	(1,291,777,000)	(13,086,000)
									(3.02%)	0.16%	(0.86%)	0.32%	0.00%	2.47%	0.00%	0.00%



City of Long Beach  
 Aggregate Remaining  
 Summary of Uncorrected Audit Misstatements  
 9/30/2017

Correcting Entry Required at Current Period End						Income Statement Effect - Debit(Credit)			Balance Sheet Effect - Debit (Credit)						
ID	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward)	Income effect of correcting the current period balance sheet	Income effect according to Rollover (Income Statement)	Equity	Current Assets	Noncurrent Assets	Deferred Outflows	Current Liabilities	Noncurrent Liabilities	Deferred Inflows
				A		B	C=A (Only Income Statement accounts)	C-B							
<b>Non-Major Gov't</b>															
AD <5>	Advance CalPERS payment	Factual	Pension Expense Transfers In	4,015,112	(4,015,112)		4,015,112 (4,015,112)	4,015,112 (4,015,112)							
<b>Internal Service Funds</b>															
AD <4>	ERP implementation Costs	Factual	Capital Assets Maintenance and Other	9,000,000	(9,000,000)		(9,000,000)	(9,000,000)			9,000,000				
AD <5>	Advance CalPERS payment	Factual	Transfers Out Pension Expense	4,015,112	(4,015,112)		4,015,112 (4,015,112)	4,015,112 (4,015,112)							
AD <6>	Pension Expense	Factual	Pension Expense Due to Employee Benefits Fund	2,800,486	(2,800,486)		2,800,486	2,800,486		(2,800,486)					
AD <10>	OPEB	Factual	Net OPEB Liability Deferred Inflows Net Assets Deferred Outflows	36,610,910 5,751,153	(35,310,802) (7,051,261)				(35,310,802)			(7,051,261)		36,610,910	5,751,153
<b>Non-Major Enterprise</b>															
AD <6>	Pension Expense	Factual	Pension Expense Due to Employee Benefits Fund	2,300,453	(2,300,453)		2,300,453	2,300,453		(2,300,453)					
			Aggregate effect of uncorrected audit misstatements (before tax):	0		0	(3,899,061)	(3,899,061)	(35,310,802)	(5,100,939)	9,000,000	(7,051,261)	0	36,610,910	5,751,153
			Aggregate effect of uncorrected audit misstatements (after tax):	0		0	(3,899,061)	(3,899,061)	(35,310,802)	(5,100,939)	9,000,000	(7,051,261)	0	36,610,910	5,751,153
			Financial statement amounts (per final financial statements) (after tax):	14,018,000		14,018,000	(528,262,000)	1,085,574,000	562,631,000	52,463,000	(230,427,000)	(720,757,000)	(221,222,000)		
			Uncorrected audit misstatements as a percentage of financial statement amounts (after tax):	-27.81%		-27.81%	6.68%	-0.47%	1.60%	-13.44%	0.00%	-5.08%	-2.60%		



# **Los Cerritos Wetlands Authority**

## **Annual Financial Report**

**For the Fiscal Year Ended September 30, 2017**



# Los Cerritos Wetlands Authority

## Our Mission Statement

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

## Our Governing Board

### Members

#### **City of Long Beach**

Chair: Suzie Price

*Alternate: Vacant*

#### **State Coastal Conservancy**

Vice-chair: Sam Schuchat

*Alternate: Joan Cardellino*

#### **City of Seal Beach**

Member: Schelly Sustarsic

*Alternate: Mike Varipapa*

#### **Rivers and Mountains Conservancy**

Member: Roberto Uranga

*Alternate: Vacant*

**Los Cerritos Wetlands Authority**  
**Annual Financial Report**  
**For the Fiscal Year Ended September 30, 2017**

**Los Cerritos Wetlands Authority  
Annual Financial Report  
For the Fiscal Year Ended September 30, 2017**

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# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
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## Independent Auditor's Report

Governing Board  
Los Cerritos Wetlands Authority  
Long Beach, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2017, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of September 30, 2017, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



## Independent Auditor's Report, continued

### *Other Matters*

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the Budgetary Comparison Schedule – General Fund on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance. This report can be found on pages 21 and 22.



**Fedak & Brown LLP**

Cypress, California

March 22, 2018

**Los Cerritos Wetlands Authority**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended September 30, 2017**

As management of the Los Cerritos Wetlands Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities and performance of the Authority for the fiscal year ended September 30, 2017. Please read it in conjunction with additional information that we have furnished in the accompanying basic financial statements, which follow this section.

**Financial Highlights**

- The Authority's net position decreased 0.06% or \$6,545 from \$11,272,389 to \$11,265,844 as a result of this year's operations. Previously reported net position increased from \$11,137,704 to \$11,272,389 as a result of that year's operations.
- The Authority's total revenues decreased 23.11% or \$87,538 from \$378,756 to \$291,218, primarily due to a decrease in program revenue.
- The Authority's total expenses increased 22.00% or \$53,692 from \$244,071 to \$297,763, primarily due to an increase in consulting fees and grant management expense.

**Using This Financial Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities and performance of the Authority using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the Authority's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the current year's revenue and expenses are accounted for in the Statements of Activities. This statement measures the success of the Authority's operations over the past year and can be used to determine the Authority's profitability and credit worthiness.

**Government-wide Financial Statements**

**Statement of Net Position and Statement of Activities**

One of the most important questions asked about the Authority's finances is, "Is the Authority better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the Authority in a way that helps answer this question.

These statements include all assets and deferred outflows of resources, liabilities and deferred inflows of resources, using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Authority's *net position* and changes in them. One can think of the Authority's net position – the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the Authority's financial health, or *financial position*. Over time, *increases or decreases* in the Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors, however, such as changes in the Authority's organizational agreements to assess the *overall health* of the Authority in future periods.

**Los Cerritos Wetlands Authority**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Year Ended September 30, 2017**

**Governmental Funds Financial Statements**

**Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance**

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 11 through 19.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's budgetary information and compliance.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets of the Authority exceeded liabilities by \$11,265,844 as of September 30, 2017.

**Condensed Statement of Net Position**

	<u>2017</u>	<u>2016</u>	<u>Change</u>
<b>Assets:</b>			
Current assets	\$ 451,848	587,548	(135,700)
Capital assets, net	<u>11,000,000</u>	<u>11,000,000</u>	<u>-</u>
<b>Total assets</b>	<u>11,451,848</u>	<u>11,587,548</u>	<u>(135,700)</u>
<b>Liabilities:</b>			
Current liabilities	186,004	215,159	(29,155)
Non-current liabilities	<u>-</u>	<u>100,000</u>	<u>(100,000)</u>
<b>Total liabilities</b>	<u>186,004</u>	<u>315,159</u>	<u>(129,155)</u>
<b>Net position:</b>			
Net investment in capital assets	11,000,000	11,000,000	-
Unrestricted	<u>265,844</u>	<u>272,389</u>	<u>(6,545)</u>
<b>Total net position</b>	<u>\$ 11,265,844</u>	<u>11,272,389</u>	<u>(6,545)</u>

At the end of fiscal year 2017, the Authority shows a positive balance in its unrestricted net position of \$265,844.

**Los Cerritos Wetlands Authority**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Year Ended September 30, 2017**

**Government-wide Financial Analysis, continued**

**Condensed Statement of Activities**

<i>Governmental Activities</i>	<u>2017</u>	<u>2016</u>	<u>Change</u>
<b>Expenses:</b>			
Authority operations	\$ 297,763	244,071	53,692
<b>Total expenses</b>	<u>297,763</u>	<u>244,071</u>	<u>53,692</u>
<b>Revenues:</b>			
Program revenues	119,669	191,311	(71,642)
General revenues	<u>171,549</u>	<u>187,445</u>	<u>(15,896)</u>
<b>Total revenues</b>	<u>291,218</u>	<u>378,756</u>	<u>(87,538)</u>
<b>Change in net position</b>	(6,545)	134,685	(141,230)
Net position – beginning of year			
– as restated	<u>11,272,389</u>	<u>11,137,704</u>	<u>134,685</u>
Net position – end of year	<u>\$ 11,265,844</u>	<u>11,272,389</u>	<u>(6,545)</u>

The Statement of Activities shows how the government's net position changed during the fiscal year. In the case of the Authority, net position decreased by \$6,545 during the fiscal year ended September 30, 2017.

**Governmental Funds Financial Analysis**

The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, the *unreserved fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of September 30, 2017, the Authority's General Fund reported a fund balance of \$265,844. Of the fund balance reported an amount of \$8,058 is designated as *nonspendable* as it has already been spent towards prepaid insurance. The remaining balance of \$257,786 constitutes the Authority's *unreserved undesignated fund balance* that is available for future Authority expenditures.

**General Fund Budgetary Highlights**

At fiscal year-end, actual expenditures for the General Fund were \$52,337 less than final budgeted expenditures and actual revenues were \$58,882 less than final budgeted revenues. This was principally due to lower than anticipated grant funding in the amount of \$156,531 from state, county and private agency sources, which was offset by higher than anticipated general revenues in the amount of \$100,000 from land option consideration income.

**Los Cerritos Wetlands Authority**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Year Ended September 30, 2017**

**Capital Asset Administration**

At the end of fiscal year 2017, the Authority's investment in capital assets amounted to \$11,000,000. This investment in capital assets includes land that is managed by the Authority.

Changes in capital assets for the year were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2017</u>
Land	\$ 11,000,000	-	-	11,000,000
Total capital assets, net	<u>\$ 11,000,000</u>			<u>11,000,000</u>

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions which could have a significant impact on the Authority's current financial position, net position or operating results in terms of past, present and future.

**Requests for Information**

The Authority's basic financial statements are designed to present users with a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have any questions about the report or need additional information, please contact the Authority at Los Cerritos Wetlands Authority, C/O the City of Long Beach Financial Management Department, 333 West Ocean Blvd., Long Beach, CA 90802 or directly at 100 Old San Gabriel Canyon Rd., Azusa, CA 91702, (626) 815-1019.

# **Basic Financial Statements**

**Los Cerritos Wetlands Authority**  
**Statements of Net Position**  
**September 30, 2017**

	<b>2017</b>
<b>Current assets:</b>	
Cash and cash equivalents (note 2)	\$ 243,611
Accounts receivable	46,579
Accounts receivable – member agencies	15,000
Accounts receivable – grants	138,600
Prepaid insurance	8,058
Total current assets	451,848
<b>Non-current assets:</b>	
Capital assets, net (note 3)	11,000,000
<b>Total assets</b>	<b>11,451,848</b>
<b>Current liabilities:</b>	
Accounts payable	81,704
Security deposit	4,300
Unearned revenue – land option (note 5)	100,000
Total current liabilities	186,004
<b>Total liabilities</b>	<b>186,004</b>
<b>Net position: (note 4)</b>	
Net investment in capital assets	11,000,000
Unrestricted	265,844
<b>Total net position</b>	<b>\$ 11,265,844</b>

See the accompanying notes to the basic financial statements

**Los Cerritos Wetlands Authority**  
**Statements of Activities**  
**For the Fiscal Year Ended September 30, 2017**

<i><b>Governmental Activities:</b></i>	<u><b>2017</b></u>
<b>Expenses:</b>	
Authority operations	\$ <u>297,763</u>
<b>Total expenses</b>	<u>297,763</u>
<b>Program revenues:</b>	
Contributions – operating	20,000
Capital grants – state and county	<u>99,669</u>
<b>Total program revenues</b>	<u>119,669</u>
<b>Net program expense</b>	<u>178,094</u>
<b>General revenues:</b>	
Rental income	61,000
Land option (note 5)	100,000
Interest earnings	30
Miscellaneous income	<u>10,519</u>
<b>Total general revenues</b>	<u>171,549</u>
<b>Change in net position</b>	(6,545)
<b>Net position – beginning of year</b>	<u>11,272,389</u>
<b>Net position – end of year</b>	<u>\$ <u>11,265,844</u></u>

See accompanying notes to the basic financial statements



**Los Cerritos Wetlands Authority**  
**Reconciliation of the Balance Sheet of Governmental**  
**Type Funds to the Statements of Net Position**  
**September 30, 2017**

	<b>General Fund</b>	<b>Reclassifications &amp; Eliminations</b>	<b>Statement of Net Position</b>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 243,611	-	243,611
Accounts receivable	46,579	-	46,579
Accounts receivable – member agencies	15,000	-	15,000
Accounts receivable – grants	138,600	-	138,600
Prepaid insurance	8,058	-	8,058
Total current assets	451,848	-	451,848
<b>Non-current assets:</b>			
Capital assets, net	-	11,000,000	11,000,000
<b>Total assets</b>	\$ 451,848	11,000,000	11,451,848
<b>Current liabilities:</b>			
Accounts payable	\$ 81,704	-	81,704
Security deposit	4,300	-	4,300
Unearned revenue – land option	100,000	-	100,000
Total current liabilities	186,004	-	186,004
<b>Total liabilities</b>	186,004	-	186,004
<b>Fund balance: (note 4)</b>			
Nonspendable	8,058	(8,058)	-
Unassigned	257,786	(257,786)	-
<b>Total fund balance</b>	265,844	(265,844)	-
<b>Total liabilities and fund balance</b>	\$ 451,848		
<b>Net position:</b>			
Net investment in capital assets		11,000,000	11,000,000
Unrestricted		265,844	265,844
<b>Total net position</b>		\$ 11,265,844	11,265,844
<b>Reconciliation:</b>			
Fund balance of governmental funds			\$ 265,844
Amounts reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.			11,000,000
Net position of governmental activities			\$ 11,265,844

See accompanying notes to the basic financial statements

**Los Cerritos Wetlands Authority**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balance of Governmental Type Funds to the Statements of Activities**  
**For the Fiscal Year Ended September 30, 2017**

	<b>General Fund</b>	<b>Reclassifications &amp; Eliminations</b>	<b>Statement of Activities</b>
<b>Expenditures/Expenses:</b>			
Authority operations	\$ 297,763	-	297,763
<b>Total expenditures/expenses</b>	297,763	-	297,763
<b>Program revenues:</b>			
Contributions – operating	20,000	-	20,000
Capital grant – state and county	99,669	-	99,669
<b>Total program revenues</b>	119,669	-	119,669
<b>Net program expense</b>			178,094
<b>General revenues:</b>			
Rental income	61,000	-	61,000
Land option	100,000	-	100,000
Interest earnings	30	-	30
Miscellaneous income	10,519	-	10,519
<b>Total general revenues</b>	171,549	-	171,549
<b>Total revenues</b>	291,218	-	
<b>Excess of revenues over expenditures</b>	(6,545)	6,545	-
<b>Change in net position</b>	-	(6,545)	(6,545)
<b>Fund deficit/Net position – beginning of year</b>	272,389	-	11,272,389
<b>Fund balance/Net position</b>	\$ 265,844	-	11,265,844
<b>Reconciliation:</b>			
Change in net position of governmental activities			\$ <u>(6,545)</u>

See accompanying notes to the basic financial statements

**Los Cerritos Wetlands Authority**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended September 30, 2017**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

In February 2006, a joint powers agreement was adopted among the Rivers and Mountains Conservancy, State Coastal Conservancy, City of Long Beach, and the City of Seal Beach. The agreement established the Los Cerritos Wetlands Authority (Authority). Each party shall, subject to the availability of funds, make equal annual contributions (minimum \$5,000 and maximum \$25,000) to, or on behalf of, the Authority. The purpose of the Authority is to provide for a comprehensive program of acquisition, protection, conservation, restoration, maintenance and operation, and environmental enhancement of the Los Cerritos Wetlands area consistent with the goals of flood protection, habitat protection and restoration and improved water supply, water quality, groundwater recharge and water conservation. The Authority has the ability to acquire and own real property, although it does not have the power of eminent domain. A second major purpose of the Authority is to conduct restoration planning and implement that restoration.

The Authority entered into an agreement of land transfer with the Trust for Public Land for approximately 68 acres of property and surface rights; commonly known as the Bryant property in Long Beach, California. The Bryant property has been an active oil field for several decades and currently contains several active oil wells and associated pipelines, roads and buildings.

The acquisition of the Bryant property involved several legal agreements as follows:

- Land Transfer Agreement - Under this agreement the Trust for Public Lands would cause the conveyance of surface fee interest in the 68 acres to the Authority. The Authority would not acquire the mineral rights or the lessor's interest in the oil and gas lease. The Authority would accept title to the surface fee interest property as-is, subject to the Land Use Agreement and the Indemnification Agreement as discussed below.
- Land Use Agreement - This agreement is between Trust for Public Lands, Signal Hill Petroleum, and the Authority, acknowledging the intended use of the conveyed property and the retained property by Signal Hill Petroleum and the Authority. The purpose of the agreement is to ensure the intended use and access of the property for both the Authority and Signal Hill Petroleum.
- Termination of Oil and Gas Lease and Grant of Easement Agreement - This agreement is to define the specific access over and use of the surface property that the Authority grants Signal Hill Petroleum to allow for the existing and future oil operations. The agreement also defines conditions for the oil operations to ensure that they are consistent with the Authority's intended use for habitat restoration and public access. The Authority grants specific easements to Signal Hill Petroleum for oil operations. The easement shall expire when all oil operations are abandoned, and Signal Hill Petroleum shall pay rent of \$25,000 per year to the Authority for the use of these easements.
- Environmental Indemnity Agreement- Under the terms of this agreement, Signal Hill Petroleum indemnifies parties from liabilities associated with any release of materials generated from the oil or gas operations beyond the levels accepted for industrial use. This indemnification only includes liabilities associated with past and future environmental releases associated with oil and gas operations but not for liability for contamination that is unrelated to those activities.

**Los Cerritos Wetlands Authority**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended September 30, 2017**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**B. Basis of Accounting and Measurement Focus**

The *basic financial statements* of the Authority are composed of the following:

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

***Government-wide Financial Statements***

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Authority are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Items not properly included among program revenues are reported instead as general revenues.

***Fund Financial Statements***

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Authority are interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The Authority reports the following major governmental fund:

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

**Los Cerritos Wetlands Authority**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended September 30, 2017**

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

**C. Financial Statement Elements**

**1. Cash and Cash Equivalents**

The Authority has contracted with the City of Long Beach Treasurer's Office to act as its fiscal agent. Substantially all of the Authority's cash is held in a financial institution bank account. The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**2. Accounts Receivable**

The Authority considers accounts receivable to be fully collectible. Accordingly, an allowance for uncollectible accounts has not been recorded.

**3. Prepaids**

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**4. Capital Assets**

Capital assets are recorded in the government-wide financial statements. Included in capital assets is land held by the Authority. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the Authority's capitalization threshold is met.

**5. Net Position/Fund Balances**

The financial statements utilize a net position presentation. Net position categories are follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of the net position balance that does not meet the definition of *restricted* or *net investment in capital assets*.

**6. Fund Equity**

The financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the Authority is bound to honor constraints on how specific amounts can be spent.

- **Non-spendable fund balance** – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- **Restricted fund balance** – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.

**Los Cerritos Wetlands Authority**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended September 30, 2017**

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

**C. Financial Statement Elements, continued**

**6. Fund Equity (continued)**

- **Committed fund balance** – amounts that can only be used for specific purposes determined by formal action of the Authority’s highest level of decision-making authority (the Governing Board) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned fund balance** – amounts that are constrained by the Authority’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making, or by a body or an official designated for that purpose. This is also the classification for residual funds in the Authority’s special revenue funds.
- **Unassigned fund balance** – the residual classification for the Authority’s general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Governing Board established, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

***Fund Balance Policy***

The Authority believes that sound financial management principles require that sufficient funds be retained by the Authority to provide a stable financial base at all times. To retain this stable financial base, the Authority needs to maintain an unrestricted fund balance in its funds sufficient to fund cash flows of the Authority and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances are considered unrestricted.

The purpose of the Authority’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

**7. Budgetary Policies**

The Authority follows specific procedures in establishing the budgetary data reflected in the financial statements. Each June the Authority’s Executive Officer prepares and submits an operating budget to the Governing Board for the General Fund. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting.

**8. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in the Authority’s net position during the reporting period. Actual results could differ from those estimates.

**Los Cerritos Wetlands Authority**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended September 30, 2017**

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

**C. Financial Statement Elements, continued**

**9. Reclassification**

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

**(2) Cash and Cash Equivalents**

Cash and cash equivalents as of September 30, 2017, consist of the following:

Deposits held with financial institutions	\$	<u>243,611</u>
Total cash and cash equivalents	\$	<u><u>243,611</u></u>

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The Authority had deposits with a bank balance of \$281,197 as of September 30, 2017. Of the bank balance, up to \$250,000 is federally insured and any remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Authority's name.

**(3) Capital Assets**

Changes in capital assets for the year were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2017</u>
Land	\$ 11,000,000	-	-	11,000,000
Total capital assets, net	\$ <u>11,000,000</u>			<u>11,000,000</u>

**(4) Unrestricted Net Position**

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (See Note (1)C.6 for a description of these categories). A detailed schedule of fund balance and their funding composition at September 30, 2017, is as follows:

<u>Fund Balance Category</u>	
Nonspendable:	
Prepaid insurance	\$ 8,058
Unassigned fund balance:	<u>257,786</u>
Total fund balance	<u><u>\$ 265,844</u></u>

**Los Cerritos Wetlands Authority**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended September 30, 2017**

**(5) Land Option and Exchange Agreements**

On September 27, 2016, the Authority entered into a land exchange option agreement with Los Cerritos Wetlands, LLC (the LLC). Terms of the agreement call for non-refundable consideration in the amount of \$300,000 to be paid to the Authority for an initial option term of 4 years, with an optional term of 4 years thereafter. The agreement provides a right of termination clause in the event the LLC determines to terminate the agreement. Upon termination, the agreement calls for the Authority to refund the LLC \$200,000 within the first year of the agreement, or \$100,000 if exercised within second year of the agreement. At September 30, 2017, the Authority's unearned revenue amounted to \$100,000 and recognized \$100,000 as income.

At September 30, 2017, the Authority and the LLC had not exercised the Land Exchange Agreement option.

**(6) Risk Management**

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased various commercial insurance policies to manage the potential liabilities that may occur from the previously named sources.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the Authority's insurance coverage during the years ending September 30, 2017, 2016, and 2015. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of September 30, 2017, 2016, and 2015.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to September 30, 2017, that have effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 75***

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 81***

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.



**Los Cerritos Wetlands Authority**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended September 30, 2017**

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

***Governmental Accounting Standards Board Statement No. 81, Continued***

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

***Governmental Accounting Standards Board Statement No. 83***

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 84***

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

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

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

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

**Los Cerritos Wetlands Authority**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended September 30, 2017**

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

***Governmental Accounting Standards Board Statement No. 85***

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 86***

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

***Governmental Accounting Standards Board Statement No. 87***

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

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

**(8) Contingencies**

***Grant Awards***

Grant funds received by the Authority are subject to audit by the grantor agencies. Such an audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Authority believes that such disallowances, if any, would not be significant.

***Litigation***

In the ordinary course of operations, the Authority is subject to claims and litigation from outside parties. After consultation with legal counsel, the Authority believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**Los Cerritos Wetlands Authority**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended September 30, 2017**

**(9) Subsequent Events**

Events occurring after September 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of March 22, 2018, which is the date the financial statements were available to be issued.

## **Required Supplementary Information**

**Los Cerritos Wetlands Authority**  
**Budgetary Comparison Schedule – General Fund**  
**For the Fiscal Year Ended September 30, 2016**

	<u>Adopted Original Budget</u>	<u>Board Approved Changes</u>	<u>Revised Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
<b>Expenditures/Expenses:</b>					
Authority operations:					
Services and supplies	\$ 350,100	-	350,100	277,763	72,337
Bad debt expense	-	-	-	20,000	(20,000)
<b>Total expenditures/expenses</b>	<u>350,100</u>	<u>-</u>	<u>350,100</u>	<u>297,763</u>	<u>52,337</u>
<b>Program revenues:</b>					
Contributions – operating	57,500	-	57,500	20,000	(37,500)
Capital grant – state and county	177,600	-	177,600	99,669	(77,931)
Capital grant – private agency	41,100	-	41,100	-	(41,100)
<b>Total program revenues</b>	<u>276,200</u>	<u>-</u>	<u>276,200</u>	<u>119,669</u>	<u>(156,531)</u>
<b>General revenues:</b>					
Rental income	73,900	-	73,900	61,000	(12,900)
Land option	-	-	-	100,000	100,000
Interest earnings	-	-	-	30	30
Miscellaneous income	-	-	-	10,519	10,519
<b>Total general revenues</b>	<u>73,900</u>	<u>-</u>	<u>73,900</u>	<u>171,549</u>	<u>97,649</u>
<b>Total revenues</b>	<u>350,100</u>	<u>-</u>	<u>350,100</u>	<u>291,218</u>	<u>(58,882)</u>
<b>Excess(deficiency) of revenues         over(under) expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,545)</u>	<u>(111,219)</u>
<b>Fund balance – beginning of year</b>	<u>8,737</u>		<u>8,737</u>	<u>272,389</u>	
<b>Fund balance – end of year</b>	<u>\$ 8,737</u>		<u>8,737</u>	<u>265,844</u>	

**Notes to Required Supplementary Information**

**(1) Budgets and Budgetary Data**

The Authority follows specific instructions in establishing the budgetary data reflected in the financial statements. Each year the Authority’s Executive Officer prepares and submits an operating and capital budget to the Board of Directors no later than September. The basis used to prepare the budget does not differ substantially in form from the modified accrual basis of accounting. The adopted budget becomes operative on October 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts.

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# **Report on Internal Controls and Compliance**



Charles Z. Fedak, CPA, MBA  
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### **Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Governing Board  
Los Cerritos Wetlands Authority  
Long Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Los Cerritos Wetlands Authority (Authority) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprises the Authority's basic financial statements, and have issued our report thereon dated March 22, 2018.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

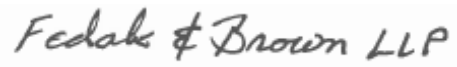
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*, continued**

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

**Fedak & Brown LLP**  
Cypress, California  
March 22, 2018