

**LOS ANGELES GATEWAY REGION  
INTEGRATED REGIONAL WATER MANAGEMENT  
JOINT POWERS AUTHORITY**

**FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**JUNE 30, 2011**

LOS ANGELES GATEWAY REGION  
INTEGRATED REGIONAL WATER MANAGEMENT  
JOINT POWERS AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Los Angeles Gateway Region Integrated Regional  
Water Management Joint Powers Authority  
Downey, California

We have audited the accompanying financial statements of the governmental activities and major fund of the Los Angeles Gateway Region Integrated Regional Water Management Joint Powers Authority (the Authority), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the Authority as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the Authority has implemented the provisions of Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011.

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis, and the budgetary comparison schedule, identified as required supplementary information in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. This information is 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 management's discussion and analysis 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison schedule and related note have 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*White Nelson Dick Evans LLP*

Irvine, California  
March 9, 2012

LOS ANGELES GATEWAY REGION  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

As management of the Los Angeles Gateway Region Integrated Regional Water Management Joint Powers Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements, which follow this section.

**Financial Highlights**

- The liabilities of the Authority exceeded its assets, at June 30, 2011, by \$353 (*net assets*). The *unrestricted net assets* may be used to meet the Authority's ongoing obligations to creditors.
- As of June 30, 2011, the Authority's governmental fund reported negative ending fund balances of \$353. (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was in deficit, at \$353.

**Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements**

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

The *statement of net assets* presents information on all the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

See independent auditors' report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**Government-wide financial statements (Continued)**

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements present information about the functions of the Authority that are principally supported by contribution from member cities (*governmental activities*). The governmental activities of the Authority focus on the regional water planning needs in the Gateway Cities Region. The coalition is currently comprised of 19 cities and government entities. They are Cities of Bell Gardens, Bellflower, Cerritos, Commerce, Downey, Lakewood, Long Beach, Lynwood, Norwalk, Paramount, Pico Rivera, Santa Fe Springs, Signal Hill, South Gate, Vernon, Whittier, Central Basin Municipal Water Agency, Long Beach Water Commission, and Southeast Water Coalition.

**Fund financial statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** *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 on 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 a governmental fund 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 be better understanding the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

See independent auditors' report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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June 30, 2011

**Fund financial statements (Continued)**

The Authority maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund. The Authority did not have any other funds.

The Authority adopts an annual appropriated budget for its General Fund. The budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

**Notes to the Basic Financial Statements**

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

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* consisting of budgetary comparison schedule for the general fund.

**Government-wide Financial Analysis**

The liabilities for the Authority exceeded assets by \$353 at June 30, 2011. The government-wide financial statements provide long-term and short-term information about the Authority's overall financial condition. This analysis addressed the financial statements of the Authority as a whole.

The following summaries of net assets and change in net assets are presented for the current and prior year.

	Governmental Activities Statement of Net Assets	
	2011	2010
Assets:		
Current and other assets	\$ 1,749,184	\$ 561,793
Total Assets	1,749,184	561,793
Liabilities:		
Current liabilities	1,749,537	153,150
Total Liabilities	1,749,537	153,150
Net Assets:		
Unrestricted	(353)	408,643
Total Net Assets (Deficit)	\$ (353)	\$ 408,643

See independent auditors' report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**Government-wide Financial Analysis (Continued)**

	Governmental Activities Changes in Net Assets	
	2011	2010
Revenues:		
Program Revenues:		
Charges for services	\$ 744,024	\$ 217,500
Operating Grants and Contributions	6,778,047	654,321
General Revenues:		
Other revenue	-	625
Total Revenues	7,522,071	872,446
Expenses:		
Governmental activities:		
Regional water management	7,931,067	744,553
Total Expenses	7,931,067	744,553
Change in Net Assets	(408,996)	127,893
Net Assets - Beginning of Year	408,643	280,750
Net Assets (Deficit) - End of Year	\$ (353)	\$ 408,643

The most significant revenues of the governmental activities are operating grants and contributions (90.1%). Charges for services are 9.9%.

The expenditures incurred by the Authority are all directly related to the overall regional water management (consulting fees, construction cost, meeting fee, etc.) and the L.A. River Catch Basin Retrofit Project.

**Financial Analysis of the Government's Funds**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** 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, *unassigned fund balance* may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

See independent auditors' report.



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MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**General Fund Budget Highlights**

Differences between the original budget and the final amended budget are briefly summarized as follows:

- Total revenues projected were \$232,500. Actual revenues for membership fees were \$744,024, causing a favorable variance of \$511,524.
- Actual amount for intergovernmental revenues were \$6,926,368 which was American Recovery and Reinvestment Act of 2009 (*ARRA*) Grant.
- Actual expenditures were \$7,809,767 higher than the adopted budget of \$121,300 because of L.A. River Catch Basin Retrofit Project funded by *ARRA* Grant.

**Capital Assets and Debt Administration**

**Capital Assets**

The Authority has no investment in capital assets for its governmental activities as of June 30, 2011.

**Debt Administration**

The Authority has no long-term liabilities for its governmental activities as of June 30, 2011.

**Economic Factors and Next Year's Budgets**

The Authority's Joint Powers agreement requires an annual appropriation from its member agencies. It is anticipated that the individual appropriation will remain at \$15,000 for the fiscal year 2011-2012. Net revenues from this appropriation will be similar to previous years. However, it is estimated that several more cities will join in the coming year. The budget is prepared and adopted in April or May of each year. A super-majority of the board is required to pass a budget.

See independent auditors' report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)

June 30, 2011

**Economic Factors and Next Year's Budgets (Continued)**

The L.A. Catch Basin Retrofit Project funded with a ten million (\$10,000,000) grant from the federal government (American Recovery and Reinvestment Act funds) was extended to October 31, 2011. The California Department of Water Resources will be funding a \$950,000 grant for the purpose of Integrated Regional Water Management (IRWM) Planning. This grant requires a 25% match, which can be in-kind services or eligible past expenditures. The contract with the State is expected to be executed in October 2011. A competitive bid process for consulting services to help develop the IRWM Plan will be conducted and awarded in late summer 2011. The goal is to have an executed contract with a Notice to Proceed by December 2011.

The Authority has also stepped up to serve as a fiduciary agency on behalf of individual watersheds and/or sub-watersheds in the Gateway Region. Currently, the Authority is only providing assistance to the Los Cerritos Channel Watershed group through an MOA. The role of the Authority is to collect funds, provide administrative support and enter into contracts for each group. It is anticipated that other watersheds will follow suit as different TMDLs are imposed by the Regional Board or the US EPA.

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Los Angeles Gateway Region Integrated Regional Water Management Joint Powers Authority, 11111 Brookshire Avenue, Downey, California 90241.

See independent auditors' report.

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STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
ASSETS:	
Grant receivable	\$ 1,118,118
Escrow deposits	<u>631,066</u>
 TOTAL ASSETS	 <u>1,749,184</u>
LIABILITIES:	
Accounts payable	694,702
Due to City of Downey	255,210
Due to City of Signal Hill	114,352
Retention payable	<u>685,273</u>
 TOTAL LIABILITIES	 <u>1,749,537</u>
NET ASSETS (DEFICIT):	
Unrestricted	<u><u>\$ (353)</u></u>

See independent auditors' report and notes to basic financial statements.

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STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Regional water management	<u>\$ 7,931,067</u>	<u>\$ 744,024</u>	<u>\$ 6,778,047</u>	<u>\$ -</u>	<u>\$ (408,996)</u>
CHANGE IN NET ASSETS					(408,996)
NET ASSETS - BEGINNING OF YEAR					<u>408,643</u>
NET ASSETS (DEFICIT) - END OF YEAR					<u>\$ (353)</u>

See independent auditors' report and notes to basic financial statements.

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BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2011

	<u>General Fund</u>
ASSETS	
Grant receivable	\$ 1,118,118
Escrow deposits	<u>631,066</u>
 TOTAL ASSETS	 <u><u>\$ 1,749,184</u></u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	\$ 694,702
Due to City of Downey	255,210
Due to City of Signal Hill	114,352
Retention payable	<u>685,273</u>
 TOTAL LIABILITIES	 <u>1,749,537</u>
FUND BALANCE (DEFICIT):	
Unassigned	<u>(353)</u>
 TOTAL FUND BALANCE (DEFICIT)	 <u>(353)</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 1,749,184</u></u>

See independent auditors' report and notes to basic financial statements.

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RECONCILIATION OF THE BALANCE SHEET OF THE  
GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS

Fund balance (deficit) for the governmental fund	\$ (353)
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Receivables that are not available for current use are recorded as deferred revenue under the modified accrual basis of accounting.	<u>-</u>
Net assets (deficit) of governmental activities	<u><u>\$ (353)</u></u>

See independent auditors' report and notes to basic financial statements.

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STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

For the year ended June 30, 2011

	<u>General Fund</u>
REVENUES:	
Membership fees	\$ 744,024
Intergovernmental revenues	<u>6,926,368</u>
 TOTAL REVENUES	 <u>7,670,392</u>
EXPENDITURES:	
Professional services	423,282
Administrative	9,724
L.A. River Catch Basin retrofit	<u>7,498,061</u>
 TOTAL EXPENDITURES	 <u>7,931,067</u>
 NET CHANGE IN FUND BALANCE	 <u>(260,675)</u>
 FUND BALANCE - BEGINNING OF THE YEAR	 <u>260,322</u>
 FUND BALANCE (DEFICIT) - END OF THE YEAR	 <u>\$ (353)</u>

See independent auditors' report and notes to basic financial statements.

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

Net change in fund balance - total governmental fund	\$ (260,675)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Some revenues reported in the Statement of Activities are not considered to be available to finance current expenditures and therefore are not reported as revenues in the governmental funds:	
Intergovernmental revenues	<u>(148,321)</u>
Change in net assets of governmental activities	<u><u>\$ (408,996)</u></u>

See independent auditors' report and notes to basic financial statements.



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NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. The Organization:

In July 2007, the Southeast Water Coalition and the Cities of Cerritos, Downey, Lakewood, Long Beach, Norwalk, Paramount, Pico River, Santa Fe Springs, Signal Hill, South Gate, et al. entered into a joint powers agreement creating the Los Angeles Gateway Region Integrated Regional Water Management Joint Powers Authority. The purpose of the agreement is to create a regional water management group, as defined in and authorized by the IRWMPA, in order to create a regional water resources management plan that will protect and enhance regional water supplies, and to otherwise further the purposes of the IRWMPA, with respect to the Members' jurisdictional areas. The Authority can also perform other regional responsibilities for water development and management.

The Authority will prepare and/or adopt a regional plan for the management of water resources, and for the implementation and operation of qualified projects or programs, and/or the preparation of qualified reports and studies, as those quoted terms are defined in the IRWMPA. The regional water resources management plan may more specifically address any of the matters set forth in California Water Code Section 10540(c) including, but not limited to, the following: ground water management planning; urban water management planning; the preparation of a water supply assessment; the planning, construction or modification of a flood management project, water recycling project, domestic water supply facility to meet safe drinking water standards, or a drainage water management unit; and/or the implementation of a water conservation program. The Authority may also exercise any other statutory authority which may now exist or be subsequently enacted to deal with ground water, storm water, water recharge, water recycling, water supply, water drainage, water conservation or any related urban water management subject within the purview of local or regional water agencies.

The agreement has since been amended to add new members. The Authority's current members are the Central Basin Municipal Water District, Long Beach Water Commission, Southeast Water Coalition and the Cities of Bell Gardens, Bellflower, Cerritos, Commerce, Downey, Lakewood, Long Beach, Lynwood, Norwalk, Paramount, Pico Rivera, Santa Fe Springs, Signal Hill, South Gate, Vernon and Whittier.

The term of the agreement continues until no less than three members remain, or until terminated by unanimous consent, provided that all liabilities of the Authority have been satisfied and all assets have been distributed. Upon termination of the agreement, the assets shall be distributed in a manner determined by a super-majority vote of the Board of Directors.

See independent auditors' report.

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NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Measurement Focus and Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all assets and liabilities (whether current or noncurrent) associated with their activity are reported. Operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Under the modified accrual basis of accounting, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

When both restricted and unrestricted resources are available, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed. As of June 30, 2011, the Authority had no restricted resources.

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NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Cash and Investments:

The Authority's cash and investments are pooled with the City of Downey's cash and investments. Investments are stated at fair value (quoted market price or the best available estimate thereof).

d. Deferred Revenues:

Deferred revenues in fund financial statements arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition during the current period.

e. Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

**Cash and Investments:**

The Authority had a bank overdraft and since cash and investments are pooled with the City of Downey's cash and investments the bank overdraft is classified in the accompanying financial statements as Due to Downey totaling \$255,210.

See independent auditors' report.

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NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

**Investments Authorized by the California Government Code and the Authority's Investment Policy:**

The table below identifies the investment types that are authorized for the Authority by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Bills, Bonds and Notes	5 years	None	None
United States Government Sponsored Agency Securities	5 years	None	None
California Local Agency Obligations	5 years	None	None
Certificates of Deposits (or Time Deposits)	5 years	None	None
Negotiable Certificates of Deposits	5 years	30%	None
Medium-Term Corporate Notes	5 years	30%	None
Bankers' Acceptances	180 days	20%	10%
Commercial Paper	180 days	15%	10%
Repurchase Agreements	30 days	None	None

**Disclosures Relating to Interest Rate Risk:**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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June 30, 2011

2. CASH AND INVESTMENTS (CONTINUED):

**Disclosures Relating to Credit Risk:**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

**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 custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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. California law also allows financial institutions to secure the Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

**Disclosures Related to Interest Rate Risk, Credit Risk and Custodial Credit Risk:**

The Authority's cash and investments are pooled with the City of Downey's cash and investments. Additional disclosures related to interest rate risk, credit risk and custodial credit risk are available in the City of Downey's Comprehensive Annual Financial Report.

See independent auditors' report.

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NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

3. GOVERNMENTAL FUND BALANCE CLASSIFICATIONS:

The Authority has implemented Governmental Accounting Standards Board Statement No. 54. "Fund Balance Reporting and Governmental Fund Type Definitions", for the year ended June 30, 2011. The fund balances reported on the fund statements now consist of the following categories:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This classification includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed Fund Balance - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

Assigned Fund Balance - This classification includes amounts to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned Fund Balance - This classification includes the residual balance for the government's general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Authority's policy is to apply restricted fund balance first.

When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the Authority's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

See independent auditors' report.

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NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2011

4. EXCESS EXPENDITURES:

The following expenditures were in excess of appropriations within the general fund:

	<u>Appropriations</u>	<u>Actual Expenditures</u>	<u>Variance</u>
Professional services	\$ 119,000	\$ 423,282	\$ (304,282)
Administrative	2,300	9,724	(7,424)
L.A. River Catch Basin retrofit	-	7,498,061	(7,498,061)

See independent auditors' report.

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BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

GENERAL FUND

For the year ended June 30, 2011

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES:				
Membership fees	\$ 232,500	\$ 232,500	\$ 744,024	\$ 511,524
Intergovernmental revenues	-	-	6,926,368	6,926,368
 TOTAL REVENUES	 232,500	 232,500	 7,670,392	 7,437,892
EXPENDITURES:				
Professional services	119,000	119,000	423,282	(304,282)
Administrative	2,300	2,300	9,724	(7,424)
L.A. River Catch Basin retrofit	-	-	7,498,061	(7,498,061)
 TOTAL EXPENDITURES	 121,300	 121,300	 7,931,067	 (7,809,767)
 NET CHANGE IN FUND BALANCE	 111,200	 111,200	 (260,675)	 (371,875)
FUND BALANCE - BEGINNING OF THE YEAR	260,322	260,322	260,322	-
FUND BALANCE (DEFICIT)- END OF THE YEAR	<u>\$ 371,522</u>	<u>\$ 371,522</u>	<u>\$ (353)</u>	<u>\$ (371,875)</u>

See independent auditors' report and note to required supplementary information.



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NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

A. GENERAL BUDGET POLICIES:

The Board of Directors adopts an annual budget, which begins on July 1. Annual appropriations are approved by the Board of Directors prior to the beginning of each year or shortly thereafter. All appropriations lapse at year-end. The Board of Directors has the legal authority to amend the budget at any time during the fiscal year.

See independent auditors' report.