



**South Bay Regional Public Communications Authority**  
**Annual Financial Report**  
**June 30, 2012 and 2011**



**Charles Z. Fedak & Company**  
Certified Public Accountants  
An Accountancy Corporation



**South Bay Regional Public Communications Authority  
Board of Directors as of June 30, 2012**

<b>Name</b>	<b>City Represented</b>	<b>Title</b>
Dan Medina	City of Gardena	Councilman
Daniel Juarez	City of Hawthorne	Mayor
Wayne Powell	City of Manhattan Beach	Mayor

*South Bay Regional Public Communications Authority  
4440 West Broadway  
Hawthorne, California 90250*

**South Bay Regional Public Communications Authority**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2012 and 2011**

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Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

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An Accountancy Corporation

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## Independent Auditor's Report

Board of Directors  
South Bay Regional Public Communications Authority  
Hawthorne, California

We have audited the accompanying financial statements of the South Bay Regional Public Communications Authority (Authority) as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the Authority as listed in the table of contents. These basic 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. The comparative financial information as of June 30, 2011, was audited by other auditors whose report dated October 19, 2011, expressed an unqualified opinion on those basic financial statements.

We conducted our audits 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the South Bay Regional Public Communications Authority as of June 30, 2012, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 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, 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 read in conjunction with this report in considering the results of our audit. This report can be found on page 21.

Accounting principals generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 4 and required supplemental information 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.

## Independent Auditor's Report, continued

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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

**Charles Z. Fedak & Company, CPA's An Accountancy Corporation**  
Cypress, California  
September 30, 2012

**South Bay Regional Public Communications Authority**  
*Management's Discussion and Analysis*  
**For the Fiscal Years Ended June 30, 2012 and 2011**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the South Bay Regional Public Communications Authority (Authority) provides an introduction to the financial statements of the Authority for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- In 2012, the Authority's net assets decreased 5.8% or \$604,723 from \$10,304,801 to \$9,700,078. Of this amount, \$8,103,883 is invested in capital assets net of accumulated depreciation; the remaining \$1,596,195 is unrestricted and may be used to meet ongoing obligations.
- The Authority has designated \$776,266 of the unrestricted amount as "operating reserve" which represents 9.84% of the budget. In 2012, the Authority designated \$250,000 for Other Post Employment Benefit (OPEB) funding.
- In 2012, the Authority's operating revenues increased 1.9% or \$160,873 primarily due to an increase in assessments charged to member agencies of \$155,390.
- In 2012, the Authority's operating expenses decreased 2.0% or \$186,236 primarily due to a decrease in salaries and wages (associated with vacant positions and use of accrued leave) of \$227,576 and with an increase in facilities expense of \$65,737.

**Required Financial Statements**

The Authority issued three series of revenue bonds in January 2001 to finance the costs of the acquisition, construction, installation and equipping of the main facility with emergency communications equipment (the "Project"). Each member of the Authority has entered into an Operating and Service Agreement with the Authority. Under the Agreements, the Authority will own and operate the Project for the benefit of the members and each member has agreed to pay, on a pro-rata basis, its portion of the cost of the Project and the cost of its annual operation. Because the communications operation is a business-type activity, the single fund administered by the Authority is classified as an enterprise fund, which includes the following financial statements:

The *statement of net assets* presents information on all of 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.

The *statement of revenues, expenses and changes in net assets* 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 event giving rise to the change occurs, regardless of the timing of related cash flows.

The *statement of cash flows* presents information showing the sources and uses of cash related to operating activities, capital and related financing activities and investing activities.

**South Bay Regional Public Communications Authority**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 8 through 19.

**Statement of Net Assets**

<b>Condensed Statements of Net Assets</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>
<b>Assets:</b>			
Current assets	\$ 2,626,514	2,954,077	(327,563)
Capital assets, net	8,103,883	8,563,829	(459,946)
<b>Total assets</b>	<b>10,730,397</b>	<b>11,517,906</b>	<b>(787,509)</b>
<b>Liabilities:</b>			
Current liabilities	292,806	526,151	(233,345)
Non-current liabilities	737,513	686,954	50,559
<b>Total liabilities</b>	<b>1,030,319</b>	<b>1,213,105</b>	<b>(182,786)</b>
<b>Net assets:</b>			
Net investment in capital assets	8,103,883	8,563,829	(459,946)
Unrestricted	1,596,195	1,740,972	(144,777)
<b>Total net assets</b>	<b>9,700,078</b>	<b>10,304,801</b>	<b>(604,723)</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,730,397</b>	<b>11,517,906</b>	<b>(787,509)</b>

As noted earlier, net assets 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 \$9,700,078 and \$10,304,801 as of June 30, 2012 and 2011, respectively.

At the end of fiscal year 2012 and 2011, the Authority showed a positive balance in its unrestricted net assets of \$1,596,195 and \$1,740,972, respectively, which may be utilized in future years.

**Statement of Revenues, Expenses and Changes in Net Assets**

<b>Condensed Statements of Revenues, Expenses and Changes in Net Assets</b>			
	<b>2012</b>	<b>2011</b>	<b>Change</b>
<b>Revenues:</b>			
Operating revenues	\$ 8,273,036	8,112,163	160,873
Non-operating revenues	11,861	9,509	2,352
<b>Total revenues</b>	<b>8,284,897</b>	<b>8,121,672</b>	<b>163,225</b>
<b>Expenses:</b>			
Operating expenses	8,889,620	9,075,856	(186,236)
<b>Total expenses</b>	<b>8,889,620</b>	<b>9,075,856</b>	<b>(186,236)</b>
Capital contributions - member agencies	-	68,264	(68,264)
<b>Change in net assets</b>	<b>(604,723)</b>	<b>(885,920)</b>	<b>281,197</b>
<b>Net assets, beginning of year</b>	<b>10,304,801</b>	<b>11,190,721</b>	<b>(885,920)</b>
<b>Net assets, end of year</b>	<b>\$ 9,700,078</b>	<b>10,304,801</b>	<b>(604,723)</b>

**South Bay Regional Public Communications Authority**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Statement of Revenues, Expenses and Changes in Net Assets, continued**

The statement of revenues, expenses and changes in net assets shows how the Authority's net assets changed during the fiscal years. In the case of the Authority, net assets decreased by \$604,723 and \$885,920 for the fiscal years ended June 30, 2012 and 2011, respectively.

A closer examination of the sources of changes in net assets reveals that:

In 2012, the Authority's operating revenues increased 1.9% or \$160,873 primarily due to a full year assessment charged for the City of El Segundo combined with lower assessments charged to member cities. The use of unrestricted net assets offset current year costs for members allowing the reduction in assessments. These changes represent \$155,390 of the total increase.

In 2012, the Authority's operating expenses decreased 2.0% or \$186,236 primarily due to a decrease in salaries and wages associated with vacant positions and the use of accrued leave of \$227,576 and with an increase in facilities expense of \$65,737.

**Capital Asset Administration**

At the end of fiscal year 2012 and 2011, the Authority's investment in capital assets amounted to \$8,103,883 and \$8,563,829 (net of accumulated depreciation), respectively.

Changes in capital asset for the year were as follows:

	<b>Balance 2011</b>	<b>Additions</b>	<b>Transfers/ Deletions</b>	<b>Balance 2012</b>
Non-depreciable assets	\$ 495,554	-	-	495,554
Depreciable assets	12,153,196	78,377	-	12,231,573
Accumulated depreciation	(4,084,921)	(538,323)	-	(4,623,244)
Total depreciable assets, net	8,068,275	(459,946)	-	7,608,329
Total capital assets, net	\$ 8,563,829	(459,946)	-	8,103,883

**Conditions Affecting Current Financial Position**

The operations of the Authority are funded by assessments from its members. Changes in the economy are unlikely to directly impact the Authority.

**Requests for Information**

This financial report is designed to provide the Authority's funding sources, customers, stakeholders and other interested parties with an overview of the Authority's financial operations and financial condition. Questions regarding the information included in this report, or requests for additional financial information, should be addressed to South Bay Regional Public Communications Authority, 4440 West Broadway, Hawthorne, CA 90250.

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# **Basic Financial Statements**

**South Bay Regional Public Communications Authority**  
**Statements of Net Assets**  
**June 30, 2012 and 2011**

<i>Assets</i>	<b>2012</b>	<b>2011</b>
Current assets:		
Cash and cash equivalents (note 2)	\$ 2,354,299	2,197,600
Accrued interest receivable	2,784	3,234
Accounts receivable	217,834	124,448
Accounts receivable $\square$ other	-	609,886
Materials and supplies inventory	16,329	15,449
Prepaid expenses and other deposits	35,268	3,460
Total current assets	2,626,514	2,954,077
Non-current assets:		
Capital assets, not being depreciated (note 3)	495,554	495,554
Capital assets being depreciated, net (note 3)	7,608,329	8,068,275
Total non-current assets	8,103,883	8,563,829
<b>Total assets</b>	\$ 10,730,397	11,517,906
<b><i>Liabilities and Net Assets</i></b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 37,190	94,650
Accrued payroll and benefits	164,285	369,372
Long-term liabilities – due within one year:		
Compensated absences (note 4)	91,331	62,129
Total current liabilities	292,806	526,151
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 4)	273,995	381,460
Post-employment benefits payable (note 6)	463,518	305,494
Total non-current liabilities	737,513	686,954
<b>Total liabilities</b>	1,030,319	1,213,105
Net assets:		
Net investment in capital assets	8,103,883	8,563,829
Unrestricted	1,596,195	1,740,972
<b>Total net assets</b>	9,700,078	10,304,801
<b>Total liabilities and net assets</b>	\$ 10,730,397	11,517,906

See accompanying notes to the basic financial statements

**South Bay Regional Public Communications Authority**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Operating revenues:		
Assessments from member cities	\$ 7,692,248	7,536,857
Charges for services	504,592	473,137
Reimbursement from the State and other governmental agencies	46,724	29,076
Bond expense reimbursement	5,150	4,125
Other revenue	24,322	68,968
Total operating revenues	8,273,036	8,112,163
Operating expenses:		
Administration	1,286,849	1,318,943
Operations	5,346,062	5,499,128
Technical services support	1,599,407	1,620,850
Capital projects	118,979	99,180
Total operating expenses	8,351,297	8,538,101
<b>Operating loss before depreciation</b>	(78,261)	(425,938)
Depreciation expense	(507,964)	(508,956)
Depreciation - SHSG Punta	(30,359)	(28,799)
Total depreciation expense	(538,323)	(537,755)
<b>Operating loss</b>	(616,584)	(963,693)
Non-operating revenues(expenses):		
Investment income	11,861	14,784
Loss on disposition of capital assets	-	(5,275)
Total non-operating revenues, net	11,861	9,509
<b>Change in net assets before capital contributions</b>	(604,723)	(954,184)
Capital contributions:		
Capital contributions	-	68,264
Total capital contributions	-	68,264
<b>Change in net assets</b>	(604,723)	(885,920)
Net assets, beginning of year	10,304,801	11,190,721
Net assets, end of year	\$ 9,700,078	10,304,801

See accompanying notes to the basic financial statements

**South Bay Regional Public Communications Authority**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Cash receipts from other agencies for dispatching services	\$ 8,789,536	8,082,311
Cash paid to vendors and suppliers for materials and services	(4,711,837)	(3,218,864)
Cash paid for salaries and wages	(3,854,934)	(5,087,560)
Net cash provided(used) by operating activities	222,765	(224,113)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(78,377)	(251,680)
Proceeds from capital grants and capital assets	-	68,264
Net cash used in capital and related financing activities	(78,377)	(183,416)
Cash flows from investing activities:		
Interest and investment earnings	12,311	15,817
Net cash provided by investing activities	12,311	15,817
<b>Net increase(decrease) in cash and cash equivalents</b>	156,699	(391,712)
Cash and cash equivalents, beginning of year	2,197,600	2,589,312
Cash and cash equivalents, end of year	\$ 2,354,299	2,197,600
Reconciliation of operating loss to net cash provided(used) by operating activities:		
Operating loss	\$ (616,584)	(963,693)
Adjustments to reconcile operating loss to net cash provided(used) by operating activities:		
Depreciation expense	538,323	537,755
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – dispatching fees	(93,386)	38,423
Accounts receivable ☐ other	609,886	(68,275)
Materials and supplies inventory	(880)	(44)
Prepaid expenses and other deposits	(31,808)	(3,360)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	(57,460)	(78,219)
Accrued payroll and benefits	(205,087)	70,870
Post-employment benefits payable	158,024	153,025
Compensated absences	(78,263)	89,405
Total adjustments	839,349	739,580
Net cash provided(used) by operating activities	\$ 222,765	(224,113)

See accompanying notes to the basic financial statements

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements**  
**June 30, 2012 and 2011**

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

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

The South Bay Regional Public Communications Authority (Authority) was organized on October 14, 1975 under the provisions of the Joint Exercise of Powers Act of the Government Code of the State of California. The purpose of the Authority is to provide a forum for discussion, study, development, implementation, operations, and maintenance of a consolidated regional public safety services communications system. At the present time, the Authority serves the Cities of Gardena, Hawthorne, and Manhattan Beach in the aforementioned capacity. Additionally, the Authority serves the Cities of Hermosa Beach and El Segundo in a non-member capacity.

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

The basic financial statements are prepared using the “economic resource measurement focus” and the full accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund’s principal ongoing operations. The principal operating revenues of the Authority are member assessments and charges for services. Operating expenses include salaries and benefits for operations personnel, the cost of legal, accounting, engineering services and other maintenance expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. Financial Reporting**

The Authority’s basic financial statements (the Statement of Net Assets, the Statement of Activities and Changes in Net Assets and the Statement of Cash Flows) report the financial activities of the Authority. These basic financial statements are presented in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and other related standards.

The Authority applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. Enterprise funds, such as the Authority, have the option of consistently following or not following pronouncements issued by FASB subsequent to November 30, 1989. The Authority has elected to follow FASB standards issued after that date, unless such standards conflict with or contradict GASB pronouncements.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

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

**D. Assets, Liabilities and Net Assets**

**1. 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 assets during the reporting period. Actual results could differ from those estimates.

**2. Cash and Cash Equivalents**

Cash equivalents are defined as short term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in values because of changes in interest rates, and have maturities of three months or less at the time of purchase.

**3. Investments and Investment Policy**

The Authority has adopted an investment policy directing the Accounting and Finance Manager to perform the management of the Authority's investments. Investments shall be made only in those instruments specifically authorized by California State laws, and to no greater an extent than authorized by those laws.

The Authority participates in the State of California Local Agency Investment Fund (LAIF) which is regulated by California Government Code (Code) Section 16429 and is under the management of the State of California Treasurer's Office with oversight provided by the Local Agency Investment Advisory Board. A portion of the pool funds are invested in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

LAIF is carried at fair value based on the value of each participating dollar as provided by LAIF. The fair value of the Authority's position in LAIF is the same as the value of its pooled share. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the Authority's deposits with the bank in accordance with the Code.

Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**4. Prepaid Expenses**

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

**5. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. The Authority's policy has set the capitalization threshold for reporting capital assets at \$1,000. Depreciation is recorded in Operations using a straight-line method based on the average estimated useful life of the assets. The estimated useful life of buildings, automobiles, property, and equipment ranges from five to forty years.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

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

**D. Assets, Liabilities and Net Assets, continued**

**6. Compensated Absences**

The Authority accounts for compensated absences (unpaid vacation, compensatory time and holiday leave) in accordance with generally accepted accounting principles. The Authority is required to accrue a liability, with a corresponding charge to current operations, for employees' right to receive compensation in future years when certain conditions are met. The Authority accrues unpaid vacation, compensatory time and holiday leave.

**7. Net Assets**

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and is reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets 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 Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

**8. Budgetary Policies**

The Authority adopts an annual budget which is approved by the Board of Directors in May. A midyear review of the budget is performed each year based on revenues received and expenses paid through December 31. The Board of Directors must approve any change to the budget that increases the overall revenue or expenses during any given fiscal year. Encumbrance accounting is generally not used to account for commitments related to unperformed contract services, however construction contracts are encumbered when the bid is awarded. The Authority has no construction projects at June 30, 2012.

**(2) Cash and Cash Equivalents**

Cash and cash equivalents as of June 30th, are classified in the Statement of Net Assets as follows:

	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 2,354,299	2,197,600
Total	\$ 2,354,299	2,197,600

Cash and cash equivalents as of June 30th, consist of the following:

	<b>2012</b>	<b>2011</b>
Petty cash	\$ 500	500
Deposits with financial institutions	369,158	434,770
Deposits held with the California Local Agency Investment Fund	1,984,641	1,762,330
Total cash and investments	\$ 2,354,299	2,197,600

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

**(2) Cash and Cash Equivalents, continued**

***Authorized Deposits and Investments***

The Authority's investment policy only authorizes deposits and investments in certain items as listed in Note 1(D)(3) to the financial statements.

***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. Of the bank balance, up to \$250,000 is federally insured at each institution. 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. 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. This Code also states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Authority's name. The Authority may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Authority, however, has not waived the collateralization requirements.

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. As of June 30, 2012 and 2011, the Authority held 100% of its investments in LAIF.

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The Authority's investment policy limits the maturity of investments to three years from the date of purchase of the investment and includes diversification restrictions to reduce overall portfolio risk.

The Authority participated in LAIF at June 30, 2012 and 2011 which included a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

- Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as collateralized mortgage obligations) or credit card receivables.

As of June 30, 2012, the Authority had \$1,984,641 invested in LAIF, which had invested 3.47% of the pool investment funds in Structured Notes and Asset-Backed Securities.

As of June 30, 2011, the Authority had \$1,762,330 invested in LAIF, which had invested 5.01% of the pool investment funds in Structured Notes and Asset-Backed Securities.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

**(2) Cash and Cash Equivalents, continued**

***Credit Risk***

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. As of June 30, 2012 and 2011, the Authority's investment in LAIF was not rated.

**(3) Capital Assets**

Changes in capital asset amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land	\$ 495,554	-	-	495,554
Total non-depreciable assets	<u>495,554</u>	<u>-</u>	<u>-</u>	<u>495,554</u>
Depreciable assets:				
Buildings and improvements	6,094,493	-	-	6,094,493
Vehicles and equipment	6,058,703	78,377	-	6,137,080
Total depreciable assets	<u>12,153,196</u>	<u>78,377</u>	<u>-</u>	<u>12,231,573</u>
Accumulated depreciation 11/7/2012				
Buildings and improvements	(1,295,810)	(152,386)	-	(1,448,196)
Vehicles and equipment	<u>(2,789,111)</u>	<u>(385,937)</u>	<u>-</u>	<u>(3,175,048)</u>
Total accumulated depreciation	<u>(4,084,921)</u>	<u>(538,323)</u>	<u>-</u>	<u>(4,623,244)</u>
Total depreciable assets	<u>8,068,275</u>	<u>(459,946)</u>	<u>-</u>	<u>7,608,329</u>
Total capital assets, net	<u>\$ 8,563,829</u>			<u>8,103,883</u>

Changes in capital asset amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Land	\$ 495,554	-	-	495,554
Total non-depreciable assets	<u>495,554</u>	<u>-</u>	<u>-</u>	<u>495,554</u>
Depreciable assets:				
Buildings and improvements	6,094,493	-	-	6,094,493
Vehicles and equipment	5,823,392	251,680	(16,369)	6,058,703
Total depreciable assets	<u>11,917,885</u>	<u>251,680</u>	<u>(16,369)</u>	<u>12,153,196</u>
Accumulated depreciation:				
Buildings and improvements	(1,143,423)	(152,387)	-	(1,295,810)
Vehicles and equipment	<u>(2,414,837)</u>	<u>(385,368)</u>	11,094	<u>(2,789,111)</u>
Total accumulated depreciation	<u>(3,558,260)</u>	<u>(537,755)</u>	<u>11,094</u>	<u>(4,084,921)</u>
Total depreciable assets	<u>8,359,625</u>	<u>(286,075)</u>	<u>(5,275)</u>	<u>8,068,275</u>
Total capital assets, net	<u>\$ 8,855,179</u>			<u>8,563,829</u>

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

**(4) Compensated Absences**

The changes to compensated absences balances at June 30, were as follows:

	<u>Balance 2011</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2012</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$	443,589	138,411	(216,674)	365,326	91,331	273,995
	<u>Balance 2010</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2011</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$	354,184	148,400	(58,995)	443,589	62,129	381,460

**(5) Defined Benefit Pension Plan**

***Plan Description***

The Authority contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Employees vest after five years of service and are eligible to retire age 50. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. State statute and the Authority by-laws establish benefit provisions which are reflected in a contract between the Authority and CalPERS. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA, 95814.

***Funding Policy***

For fiscal year 2012 and 2011, the contribution rate for plan members in the CalPERS 2% at 55 Risk Pool Retirement Plan was 7% of their annual covered salary. The Authority makes these required contributions for all employees participating in this plan on their behalf and for their account.

The Authority is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rate for fiscal years 2012, 2011 and 2010 are noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2012, 2011 and 2010, the Authority's annual contributions for the CalPERS plan were equal to the Authority's required and actual contribution for each fiscal year as follows:

***Three Years CalPERS Funding Information***

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2009-2010	\$ 549,012	100%	-	7.229%
2010-2011	667,493	100%	-	7.965%
2011-2012	696,489	100%	-	9.044%

***Two Tier Plan***

On December 24, 2011, the Authority enacted a two tier plan for employees who become eligible to participate in the Authority's CalPERS defined benefit pension plan after that date. Employees in this plan participate in the CalPERS 2% at 60 Risk Pool Retirement Plan.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

**(5) Defined Benefit Pension Plan, continued**

*Two Tier Plan, continued*

The contribution rate for plan members in the CalPERS 2% at 60 Risk Pool Retirement Plan is 7% of their annual covered salary. Employees participating in this plan are required to make these contributions on their own behalf. As previously mentioned, the Authority is also required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The Authority's annual contributions for this CalPERS plan were equal to the Authority's required and actual contributions as follows:

*One Year CalPERS Funding Information*

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>	<b>APC Percentage of Payroll</b>
2011-2012	\$ 2,099	100%	-	7.733%

**(6) Other Post-Employment Benefits (OPEB)**

The Authority provides certain health insurance benefits, in accordance with memoranda of understanding to retired employees. Employees, who are at least 50 years of age and with 10 years continuous service with the Authority, become eligible for benefits if they reach normal retirement age while working for the Authority. The Authority recognized the cost of providing those benefits by expensing \$44,150 and \$41,497, which was the portion of the premium paid by the Authority to provide benefits for 7 retirees for fiscal year 2012 and 6 retirees for fiscal years 2011. The benefits for various bargaining groups are as follows:

*Teamsters (Communications Operators):*

- 10 years of service – will get \$125/mo. from retirement date till age 65
- 15 years of service – will get \$175/mo. from retirement date till age 65
- 20 years of service – will get \$375/mo. from retirement date till age 65

Those who retired prior to July 1, 2008, shall continue to receive \$582.33 per month and those who retire prior to July 1, 2018 shall receive \$600 per month as long as the Authority remains in the Public Employees' Medical & Hospital Care Act (PEMHCA); if no longer in PEMHCA, will receive above depending on years of service. This includes the minimum contribution required under Government Code Section 22892(b) of PEMHCA, currently at \$112.

*Teamsters (Communications Technicians):*

- 10 years of service – will get \$125/mo. from retirement date till age 65
- 15 years of service – will get \$175/mo. from retirement date till age 65
- 20 years of service – will get \$375/mo. from retirement date till age 65

Those who retire prior to July 1, 2018, shall continue to receive \$960.00 per month as long as the Authority remains in PEMHCA; if no longer in PEMHCA, will receive above depending on years of service. This includes the minimum contribution required under Government Code Section 22892(b) of PEMHCA, currently at \$112.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

**(6) Other Post-Employment Benefits (OPEB), continued**

***CWA (Communications Supervisors):***

15 years of service – will get \$250/mo. from retirement date till age 65

20 years of service – will get \$450/mo. from retirement date till age 65

Those who retire from the Authority before July 1, 2014, shall receive \$750.00 per month as long as the Authority remains in PEMHCA, or the above if no longer in PEMHCA. This includes the minimum contribution required under Government Code Section 22892(b) of PEMHCA, currently at \$112.

***Management & Confidential***

\$30 times years of service as monthly benefit from retirement date till age 65 with minimum 10 years of service with the Authority.

Those who retire from the Authority before July 1, 2014, shall receive \$960.00 per month as long as the Authority remains in PEMHCA, or the above if no longer in PEMHCA. This includes the minimum contribution required under Government Code Section 22892(b) of PEMHCA, currently at \$112.

***All Bargaining Groups***

The Authority currently contracts with CalPERS for employee group insurance health benefits. If the Authority should terminate its contract with CalPERS, all employees hired prior to April 1, 1986 who are ineligible to participate in Medicare and retire from a classification covered by the memorandum of understanding of each bargaining unit, are receiving retirement benefits from CalPERS and have a minimum of twenty (20) years of full-time employment, shall be entitled to enroll in an Authority-selected health benefit plan. The benefits provided in the health plan selected by the Authority shall equal or exceed the benefits the employee would have received had he/she been eligible to participate in Medicare. The Authority agrees to pay the cost of coverage for the plan in which the employee is enrolled. If the employee resides outside the State of California at the time of eligibility, the Authority agrees to pay the employee the cash equivalent of the cost of coverage for the plan in which the employee would have been enrolled had he/she lived in California. This benefit commences upon the employee reaching the age of 65, at which time he/she would have otherwise been eligible to participate in Medicare. The benefit shall cease if and when the employee becomes eligible to participate in Medicare or an equivalent Government health benefit program.

***Annual OPEB Cost and Net OPEB Obligation***

During the fiscal year ended June 30, 2010, the Authority implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for other post-employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the Authority are set forth below.

***Plan Description***

As previously notes, the Authority pays a portion of the cost of health insurance for retirees subject to certain restrictions as determined by the Authority.

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Active plan members	54	59	53
Retirees and beneficiaries receiving benefits	7	6	6
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>61</u>	<u>65</u>	<u>59</u>

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

**(6) Other Post-Employment Benefits (OPEB), continued**

***Funding Policy***

The Authority's annual OPEB cost is calculated based on the *Annual Required Contribution (ARC) of the Employer*, which is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each fiscal year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 4.24% of the annual covered payroll.

The Authority currently funds the plan on a pay-as-you-go basis and records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost. In 2012, the Authority designated \$250,000 for OPEB funding in anticipation of developing a policy for pre-funding the liability.

***Annual Cost***

For the fiscal year ended June 30, 2012, the Authority's ARC cost is \$186,899. The Authority's net OPEB payable obligation amounted to \$463,518 for the fiscal year ended June 30, 2012. The Authority contributed \$44,150 in age adjusted contributions for current retiree OPEB premiums for the fiscal year ended June 30, 2012.

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 186,899	186,899	186,899
Interest on net OPEB obligation	15,275	7,623	-
Adjustment to annual required contribution	-	-	-
Total annual OPEB expense	<u>202,174</u>	<u>194,522</u>	<u>186,899</u>
Change in net OPEB payable obligation:			
Benefit payments paid outside of a trust	(44,150)	(41,497)	(34,430)
Total change in net OPEB payable obligation	<u>158,024</u>	<u>153,025</u>	<u>152,469</u>
Net OPEB obligation - beginning of year	<u>305,494</u>	<u>152,469</u>	-
Net OPEB obligation - end of year	<u><u>463,518</u></u>	<u><u>305,494</u></u>	<u><u>152,469</u></u>

The Authority's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding fiscal years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Contribution</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2010	\$ 186,899	\$ 34,430	18.42%	\$ 152,469
6/30/2011	194,522	41,497	21.33%	305,494
6/30/2012	202,174	44,150	21.84%	463,518

The most recent valuation (dated July 1, 2009) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$1,657,755. There are no plan assets because the Authority funds on a pay-as-you-go basis. No trend information is reported because the fiscal year ended June 30, 2009, is the first year the Authority implemented GASB 45. The covered payroll (annual payroll of active employees covered by the plan) for the fiscal year ended June 30, 2009 was \$4,409,444. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 37.60%.

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

**(6) Other Post-Employment Benefits (OPEB), continued**

***Actuarial Methods and Assumptions***

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level dollar
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Discount rate	5.0%
Project salary increase	3.0%
Inflation - discount rate	5.0%

**(7) Conduit Debt**

In January 2001, the Authority issued three series of bonds to finance the costs of the acquisition, construction, installation, and equipping of the main facility with emergency communications equipment (the Project). The \$3,060,000 2001 Revenue Bonds Series A, \$4,300,000 2001 Variable Rate Demand Revenue Bonds Series B, and \$2,180,000 2001 Variable Rate Demand Revenue Bonds Series C, are payable from the revenues derived primarily from project financing and operating payments by the Cities of Gardena, Hawthorne, and Manhattan Beach, respectively. In fiscal year 2007, the Cities of Gardena and Hawthorne refunded their portion of the conduit debt.

Those bond issues are not reflected as the Authority's long-term debt because the individual debt is solely payable from and secured by specific revenue sources described in the official statements of the respective issues. Neither the faith and credit of the Authority, nor the taxing power the State of California or any political subdivision thereof, is pledged for payment of these bonds. Accordingly, since this debt does not constitute an obligation of the Authority, it is not reflected as long-term debt in the accompanying basic financial statements.

	<u>Original</u>	<u>Amount</u>		<u>Amount</u>
	<u>Issuance</u>	<u>Outstanding</u>	<u>Reductions</u>	<u>Outstanding</u>
		<u>June 30, 2011</u>		<u>June 30, 2012</u>
2007 Refunding Revenue Demand Bonds	\$ 2,800,000	\$ 2,320,000	\$ (70,000)	\$ 2,250,000
2007 Refunding Revenue Demand Bonds	3,925,000	3,520,000	(115,000)	3,405,000
2001 Variable Rate Demand Revenue Bonds (Series C)	2,180,000	1,495,000	(50,000)	1,445,000
	<u>\$ 8,905,000</u>	<u>\$ 7,335,000</u>	<u>\$ (235,000)</u>	<u>\$ 7,100,000</u>

**South Bay Regional Public Communications Authority**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2012 and 2011**

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, with effective dates that may impact future financial presentations. The Authority will implement any and all such pronouncements when they become effective.

**(9) 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 is insured for all risks of loss through insurance companies. The following is a summary of the insurance policies carried by the Authority as of June 30, 2012:

<u>Insurance Risk</u>	<u>Coverage per Incident</u>	<u>Coverage in Aggregate</u>	<u>De ductible</u>
Commercial general liability	\$ 1,000,000	\$ 1,000,000	N/A
Automobile	1,000,000	N/A	500
Property coverage	N/A	10,446,000	2,500
Excess commercial general liability	4,000,000	4,000,000	N/A
Workers' compensation	1,000,000	N/A	N/A
Government crime	250,000	N/A	2,500
Employee-related practices liability	5,000,000	5,000,000	15,000
Public entity management liability	1,000,000	1,000,000	15,000
Employee benefits liability	1,000,000	3,000,000	1,000
Law enforcement liability	1,000,000	1,000,000	15,000

**(10) Commitments and Contingencies**

***Grant Awards***

Grant funds received by the Authority are subject to audit by the grantor agencies. Such 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. In the opinion of the Authority's management, there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.

**(11) Subsequent Events**

Management has evaluated events occurring after June 30, 2012 to determine if events or transactions occurring as of September 30, 2012, the date the financial statements were available to be issued, require adjustments to or disclose in the financial statements.

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## **Required Supplementary Information**



**South Bay Regional Public Communications Authority**  
**Schedule of Funding Status – Other Post-Employment Benefits Obligation**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

*Funded Status and Funding Progress of the Plan*

<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability Entry Age</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll</u>
7/1/2009	\$ -	\$ 1,657,755	\$ 1,657,755	0.0%	\$ 4,409,444	37.60%

Funding progress is presented for the one year that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of OPEB liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of OPEB liability and funding status will be performed in FY 2013 based on the year ending June 30, 2012.

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# **Report on Compliance and Internal Controls**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

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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***

Board of Directors  
South Bay Regional Public Communications Authority  
Hawthorne, California

We have audited the basic financial statements of the South Bay Regional Public Communications Authority (Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 30, 2012. 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.

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

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak & Company, CPA's An Accountancy Corporation**  
Cypress, California  
September 30, 2012