



***Southern California Coastal Water
Research Project Authority***

Annual Financial Report

For the Fiscal Year Ended June 30, 2023

**Prepared by:
Administration Department**

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Costa Mesa, CA 92626
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Southern California Coastal Water Research Project Authority

Annual Financial Report For the Fiscal Year Ended June 30, 2023

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INTRODUCTORY SECTION



SOUTHERN CALIFORNIA COASTAL WATER RESEARCH PROJECT

A Public Agency for Environmental Research

November 20, 2023

Commission Members
Southern California Coastal Water Research Project Authority
Costa Mesa, California

Introduction

It is our pleasure to submit the Annual Financial Report for the Southern California Coastal Water Research Project Authority (Authority) for the fiscal year ended June 30, 2023. Authority staff, following guidelines set forth by the Governmental Accounting Standards Board, prepared this financial report. The Authority is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects.

This report is organized into three sections: (1) Introductory, (2) Financial, and (3) Required Supplementary Information. The Introductory section offers general information about the Authority's organization, goals, and activities. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the Authority's financial statements, and the Authority's audited financial statements with accompanying notes. The Required Supplementary Information section includes a budgetary comparison schedule of the General Fund.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the Independent Auditor's Report.

History of the Authority

The Southern California Coastal Water Research Project Authority, or SCCWRP, is a leading U.S. environmental research institute that develops the scientific foundation for public-sector management and protection of aquatic ecosystems. SCCWRP was founded in 1969 as a Joint Powers Authority by Southern California's five biggest metropolitan wastewater dischargers, which pooled their money and resources to form the independent public agency. SCCWRP's original, three-year mission was to study the effects of wastewater discharge on Southern California's coastal marine environment. But the founding members quickly realized the value of SCCWRP, and the original JPA has since been extended and amended more than 16 times. During the agency's first two decades, SCCWRP was primarily a marine science organization, governed by the Publicly Owned Treatment Works (POTWs) that founded it. In 1990, the SCCWRP Commission invited five state and federal regulators that oversee the POTWs to become member agencies. In 2003, the number of member agencies was expanded again; this time to include four stormwater management agencies – a recognition that SCCWRP's research had grown beyond marine issues to encompass coastal watersheds as well. In 2007, SCCWRP expanded its reach to encompass California natural resources via addition of the California Ocean Protection Council.

For over 50 years, SCCWRP has been a champion of sound interdisciplinary approaches to solving complex challenges in water-quality management for Southern California and beyond. SCCWRP's staff of about 50 scientists investigates not only how to effectively monitor and protect the health of watersheds and coastal waters impacted by human activity, but also how to bridge the gap between water-quality research and the management community that relies on this science. Research conducted by SCCWRP scientists has served as the foundation of regulatory policies and management actions in diverse arenas, including stormwater permit reissuances, sediment quality criteria, biological objectives for aquatic life, and microbial contamination standards for coastal ocean water. SCCWRP scientists have published more than 1,100 scientific reports and peer-reviewed articles in more than 150 journals and participate on dozens of state and national scientific advisory committees hosted by leading regional, federal, and international organizations.

Strategic Goals of the Authority

SCCWRP's mission is to enhance the scientific foundation for management of Southern California's ocean and coastal watersheds. SCCWRP's vision is that the effective transfer of science to member agencies and other stakeholders leads to implementation of appropriate, viable management strategies that protect the ocean and coastal watersheds for this and future generations.

Goal 1: Undertake and participate in scientific investigations to understand ecological systems in the coastal waters and associated watersheds, to document relationships between these systems and human activities relevant to SCCWRP member agencies.

Goal 2: Serve as a respected source of unbiased coastal water quality science.

Goal 3: Develop scientific consensus on issues relevant to management decisions and application of science by member agencies.

Goal 4: Stimulate conversion of science to action.

Budgetary Control

The Authority annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the Authority's operations and capital projects. The budget and reporting treatment applied to the Authority is consistent with the modified accrual basis of accounting.

Internal Control Structure

The Authority's management is responsible for the establishment and maintenance of an internal financial control structure that ensures that the assets of the Authority are protected from loss, theft, or misuse. The internal financial control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Authority's internal financial control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Investment Policy

The Commission has adopted an investment policy that conforms to state law and uses prudent money management practices in its guiding principles. The objectives of the Investment Policy are safety, liquidity, and yield. The Authority's funds are primarily invested in the State Treasurer's Local Agency Investment Fund and the Los Angeles County Pooled Investment Fund. To finance daily activities, the Authority maintains operating accounts with Bank of the West.

Audit and Financial Reporting

State law requires the Authority to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Rogers, Anderson, Malody & Scott, LLP., has conducted the audit of the Authority's financial statements. Their *unmodified* Independent Auditor's Report appears in the Financial Section.

Other References

More information is contained in the Management's Discussion and Analysis and the notes to the basic financial statements found in the Financial Section of the report.

Publications and Requests for Technical Information

Technical reports on the Authority's research findings are available on its website at www.sccwrp.org and by contacting SCCWRP at 3535 Harbor Blvd. Suite 110, Costa Mesa, California 92626-1437 – (714) 755-3201.

Respectfully submitted,



Stephen B. Weisberg, Ph.D.
Executive Director



Bryan Nece
Administrative Officer

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SCCWRP Commission

(As of June 30, 2023)

Orange County Sanitation District

Commissioner: Rob Thompson, P.E.

Alternate: Lan Wiborg

City of Los Angeles Bureau of Sanitation

Commissioner: Barbara Romero

Alternate: Dr. Mas Dojiri

Los Angeles County Sanitation Districts

Commissioner: Robert Ferrante

Alternate: Martha Tremblay

California State Water Resources Control Board

Commissioner: Karen Mogus

Alternate: Greg Gearheart

City of San Diego Public Utilities Department

Commissioner: Vacant

Alternate: Dr. Peter Vroom

California Regional Water Quality Control Board, Los Angeles Region

Commissioner: Susana Arredondo (Chair)

Alternate: Jenny Newman

California Regional Water Quality Control Board, San Diego Region

Commissioner: David Gibson

Alternate: Kelly Dorsey

California Regional Water Quality Control Board, Santa Ana Region

Commissioner: Jayne Joy

Alternate: Vacant

U.S. Environmental Protection Agency, Region IX

Commissioner: Ellen Blake

Alternate: Christina Yin

Ocean Protection Council

Commissioner: Jenn Eckerle

Alternate: Dr. Justine Kimball

Ventura County Watershed Protection District

Commissioner: Arne Anselm

Alternate: Glenn Shephard

Los Angeles County Flood Control District

Commissioner: Keith Lilly

Alternate: Mark Lombos, P.E.

County of Orange Public Works Department

Commissioner: Amanda Carr

Alternate: Grant Sharp

County of San Diego

Commissioner: Vacant

Alternate: Christine Tolchin

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

Independent Auditor's Report

Board of Commissioners
Southern California Coastal Water Research Project Authority
Costa Mesa, California

PARTNERS

Terry P. Shea, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jenny W. Liu, CPA, MST
Gardenya Duran, CPA, CGMA
Brianna Schultz, CPA, CGMA
Brenda L. Odle, CPA, MST (Partner Emeritus)

MANAGERS / STAFF

Seong-Hyea Lee, CPA, MBA
Evelyn Morentin-Barcena, CPA
Veronica Hernandez, CPA
Laura Arvizu, CPA
John Maldonado, CPA, MSA
Julia Rodriguez Fuentes, CPA, MSA
Demi Hite, CPA
Jeffrey McKennan, CPA

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants



Report on the Audit of the Financial Statements

Opinions

We have audited the governmental activities and the major fund of the Southern California Coastal Water Research Project Authority (the Authority) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Report on Summarized Comparative Information

We have previously audited the Authority's 2023 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, and the major fund in our report dated November 20, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Information included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the Letter of Transmittal but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 20, 2023 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 solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
November 20, 2023

Management Discussion and Analysis

Southern California Coastal Water Research Project Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2023

This section of the Southern California Coastal Water Research Project Authority's (Authority) annual financial report presents Management's Discussion and Analysis of the Authority's financial performance during the fiscal year ended June 30, 2023. The information presented here is to be considered in conjunction with additional information provided with the letter of transmittal and basic financials statements and accompanying notes.

Financial Highlights

- The Authority's net position decreased \$858,630, or 16.53%, from \$5,194,281 to \$4,335,641 because of this year's operations.
- The Authority's cash and cash equivalents decreased \$1,499,622, or 29.22%, from \$5,131,692 to \$3,632,070 because of this year's operations.
- The Authority spent \$59,685 on capital assets. This is primarily due to purchasing scientific equipment for research and audit/visual equipment.
- The Authority's total program revenues decreased \$1,032,381, or 8.61%, from the prior year. This is mostly due to a decrease in grants and contracts for research.
- The Authority's total expenses increased \$253,293, or 2.17%, from the prior year. This is primarily due to a \$888,196 increase in salaries/benefits and a \$635,482 decrease in scientific services and supplies.
- The authority incurred no debt in fiscal year 2023.

Overview of Financial Statements

The Authority's financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB) Financial Reporting Standards. This discussion and analysis serve as an introduction to the Authority's financial statements. The Authority's basic financial statements are composed of two components: financial statements and essential notes to the financial statements. This report also contains other required supplementary information.

Government-wide Financial Statements

(Statements of Net Positions and Statements of Activities)

The Statement of Net Position includes all the Authority's assets, deferred outflows of resources and liabilities, and deferred inflows of resources, and provides information about the nature of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

The Statement of Activities accounts for the current year's revenues and expenses. This statement measures the success of the Authority's operations over the past year. This statement can also be used to determine the Authority's credit worthiness and profitability.

Southern California Coastal Water Research Project Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2023

Governmental Funds Financial Statements

(Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance)

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

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

Condensed Statements of Net Position				
	2023	2022	Change	
			\$	%
Assets				
Current assets	\$ 5,913,601	\$ 7,110,217	\$ (1,196,616)	-16.83%
Capital assets, net	2,958,439	3,465,491	(507,052)	-14.63%
Total Assets	8,872,040	10,575,708	(1,703,668)	-16.11%
Liabilities				
Current liabilities	1,170,112	1,742,024	(571,912)	-32.83%
Unearned revenue	1,024,385	927,063	97,322	10.50%
Noncurrent liabilities	2,341,892	2,712,340	(370,448)	-13.66%
Total Liabilities	4,536,389	5,381,427	(845,038)	-15.70%
Net Position				
Net investment in capital assets	246,097	418,975	(172,878)	-41.26%
Unrestricted	4,089,554	4,775,306	(685,752)	-14.36%
Total Net Position	\$ 4,335,651	\$ 5,194,281	\$ (858,630)	-16.53%

Southern California Coastal Water Research Project Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2023

At the end of fiscal year 2023, the Authority showed an unrestricted net position of \$4,089,554 that may be utilized in future years. This was a decrease of \$685,752 from the previous year due to operations. A portion of the Authority's net position, 6.02%, reflects its investment in capital assets (net of accumulated depreciation). The Authority uses these capital assets to conduct aquatic environmental research; consequently, these assets are not available for future spending.

Condensed Statements of Activities				
	2023	2022	Change	
			\$	%
Expenses				
Environmental Research	\$ 11,905,303	\$11,652,010	\$ 253,293	2.17%
Program Revenues	10,962,143	11,994,524	(1,032,381)	-8.61%
General Revenues	84,530	(92,473)	177,003	-191.41%
Total Revenues	11,046,673	11,902,051	(855,378)	-7.19%
Change in net position	(858,630)	250,041	\$ (1,108,671)	-443.40%
Net Position, beginning of year	5,194,281	4,944,240		
Net Position, end of year	\$ 4,335,651	\$ 5,194,281		

While the Statement of Net Position shows the financial position at year-end, the Statement of Activities provides information as to the nature and source of these changes in Net Position. In fiscal year 2023, program revenue from grants and contracts decreased \$1,032,381, or 8.61%, from the prior year. This was offset by a \$253,293 increase, or 2.17%, in expenses. The Authority's revenues are supported by multi-year grants and contracts, primarily from government agencies. The Authority also received \$2.6 million in contributions from member agencies.

The Authority's expenses, less grant pass-through costs for scientific services and supplies, are mostly driven by staff head count. For fiscal 2023, salaries and benefits accounted for 77% of the Authority's expenses less grant pass-through costs. On June 30, 2023, the Authority had 49 full time employees.

Governmental Funds Financial Analysis

The focus of the Authority's governmental fund 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. Unassigned fund balance may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2023, the Authority's General Fund reported a fund balance of \$4,490,700. An amount of \$4,028,504 constitutes the Authority's unassigned fund balance, which is available for future research project expenditures.

Southern California Coastal Water Research Project Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2023

General Fund Budgetary Highlights

The final budgeted expenditures for the General Fund at year-end were \$22,626 less than actual and final budgeted revenues for the General Fund were \$661,999 less than actual. The General Fund budget to actual comparison schedule can be found on page 34.

Capital Asset Administration

At the end of fiscal year 2023, the Authority's net investment in capital assets amounted to \$2,958,439 net of accumulated depreciation/amortization. Net investment in capital assets includes right to use assets, equipment and furniture, leasehold improvements, and vehicles offset by lease liability. Major capital assets additions during the year include \$59,685 for equipment and leasehold improvements. (See note 4 for further information)

Summary of capital assets for the year was as follows:

<u>Depreciable/Amortizable Assets</u>	<u>Balance</u>	
	<u>2023</u>	<u>2022</u>
Equipment and furniture	\$ 3,559,291	\$ 3,499,606
Right to use asset - building	3,504,032	3,504,032
Leasehold Improvements	1,742,461	1,742,461
Vehicles	81,351	81,351
Total depreciable/amortizable assets	8,887,135	8,827,450
Accumulated depreciation/amortization	(5,928,696)	(5,361,959)
Total depreciable/amortizable assets, net	2,958,439	3,465,491
Total capital assets, net	<u>\$ 2,958,439</u>	<u>\$ 3,465,491</u>

Noncurrent Liabilities

Total noncurrent liabilities decreased \$370,448, or 13.66% from the prior period. The decrease was due to scheduled principal lease payments.

Economic Factors and Next Year's Budget

Management of the Authority believes that it currently has sufficient contractual funding for the next fiscal year. The Commission of the Authority approved a \$12.6 million budget for fiscal year 2024.

Most of the Authority's research grants and contracts are multi-year; however, the Authority's program revenue is wholly dependent on government funding sources, especially from the State of California. Federal and State contracts contain optional termination and limitation of liability clauses. Therefore, performance of work can be terminated without cause with 30 days' written notice. Funding can also be withdrawn if a budget act does not appropriate sufficient funds for a program.

Southern California Coastal Water Research Project Authority

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2023

Requests for Information

The financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have questions about this report or need additional financial information, contact the Administrative Officer of the Authority at 3535 Harbor Blvd., Suite 110, Costa Mesa, California 92626.

Basic Financial Statements

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Southern California Coastal Water Research Project Authority

Statements of Net Position

June 30, 2023

(With summarized comparative totals for June 30, 2022)

	Governmental Activities	
	2023	2022
Assets		
Cash and cash equivalents (Notes 2 and 3)	\$ 3,632,070	\$ 5,131,692
Receivables:		
Interest receivable	19,740	8,809
Contract research studies	1,702,043	1,535,501
Federal grants	362,249	281,166
Contract retentions	136,449	91,999
Prepaid items and deposits	61,050	61,050
Capital assets, net (Note 4)	2,958,439	3,465,491
Total Assets	<u>8,872,040</u>	<u>10,575,708</u>
Liabilities		
Accounts payable and accrued expenses	398,516	1,053,081
Compensated absences (Note 5)	401,146	354,767
Unearned revenue (Note 6)	1,024,385	927,063
Noncurrent liabilities (Note 10):		
Due within one year	370,450	334,176
Due in more than one year	2,341,892	2,712,340
Total Liabilities	<u>4,536,389</u>	<u>5,381,427</u>
Net Position		
Net investment in capital assets	246,097	418,975
Unrestricted	4,089,554	4,775,306
Total Net Position	<u>\$ 4,335,651</u>	<u>\$ 5,194,281</u>

The accompanying notes are an integral part of these financial statements.

Southern California Coastal Water Research Project Authority

Statements of Activities

For the Fiscal Year Ended June 30, 2023

(With summarized comparative totals for the fiscal year ended June 30, 2022)

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Expenses		
Marine Environmental Research:		
Salaries and benefits	\$ 6,849,156	\$ 5,960,959
Scientific services and supplies	3,025,295	3,660,777
Facilities	1,152,915	1,185,444
Materials and services	311,200	249,141
Depreciation and amortization	566,737	595,689
	<u>11,905,303</u>	<u>11,652,010</u>
Program Revenues		
Charges for contract research studies	7,058,420	8,462,445
Charges for Federal contract research	207,239	216,459
Operating grants from Federal awards	1,044,232	740,620
Operating contributions from members	2,652,252	2,575,000
	<u>10,962,143</u>	<u>11,994,524</u>
Net Program Revenues (Expenses)	<u>(943,160)</u>	<u>342,514</u>
General Revenues		
Interest Earnings	<u>84,530</u>	<u>(92,473)</u>
Total General Revenues	<u>84,530</u>	<u>(92,473)</u>
Change in net position	(858,630)	250,041
Net Position, beginning of year	<u>5,194,281</u>	<u>4,944,240</u>
Net Position, end of year	<u>\$ 4,335,651</u>	<u>\$ 5,194,281</u>

The accompanying notes are an integral part of these financial statements.

Southern California Coastal Water Research Project Authority

Balance Sheet Governmental Fund June 30, 2023

	General Fund
Assets	
Cash and Cash Equivalents	\$ 3,632,070
Receivables:	
Interest receivable	19,740
Contract research studies	1,702,043
Federal grants	362,249
Contract retentions	136,449
Prepaid items and deposits	61,050
	<hr/>
Total Assets	\$ 5,913,601
	<hr/>
Liabilities	
Accounts payable and accrued expenses	\$ 398,516
Unearned revenues	1,024,385
	<hr/>
Total Liabilities	1,422,901
	<hr/>
Fund Balance (Note 7)	
Nonspendable	61,050
Assigned	401,146
Unassigned	4,028,504
	<hr/>
Total Fund Balance	4,490,700
	<hr/>
Total Liabilities and Fund Balance	\$ 5,913,601
	<hr/>
Fund Balance of Governmental Fund	\$ 4,490,700
Amounts reported for governmental activities in the Statement of Net Position is difference because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	2,958,439
Long-term liabilities applicable to the Authority are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term, are reported in the statement of net position.	
Lease liability	(2,712,342)
Compensated absences	(401,146)
	<hr/>
Net Position of Governmental Activities	\$ 4,335,651
	<hr/>

The accompanying notes are an integral part of these financial statements.

Southern California Coastal Water Research Project Authority

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Fund For the Fiscal Year Ended June 30, 2023

	General Fund
Revenues	
Intergovernmental revenues:	
Contract research studies	\$ 7,058,420
Federal grant awards	1,044,232
Federal contract research	207,239
Operating contributions from members	2,652,252
Interest earnings	84,530
	11,046,673
Total Revenues	11,046,673
Expenditures	
Current:	
Salaries and benefits	6,802,777
Scientific services and supplies	3,025,295
Facilities	979,130
Materials and services	311,200
Debt service:	
Principal	334,174
Interest	173,785
Capital outlay - scientific equipment	59,685
	11,686,046
Total Expenditures	11,686,046
Excess of revenues over (under) expenditures	(639,373)
Fund Balance, beginning of year	5,130,073
Fund Balance, end of year	\$ 4,490,700
Net change in Fund Balance - Total Governmental Fund	\$ (639,373)

Amounts reported for governmental activities in the Statement of Activities is different because:

Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenses in governmental fund as follows:

Net change in compensated absences	(46,379)
The repayment of debt consumes current financial resources of governmental funds.	334,174

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation/amortization expense.

This is the amount by which depreciation/amortization exceeded capital outlay in the current period.

Depreciation/amortization expense	(566,737)
Capital outlay	59,685
	(507,052)
Change in Net Position of Governmental Activities	\$ (858,630)

The accompanying notes are an integral part of these financial statements.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Southern California Coastal Water Research Project Authority (the "Authority") was formed to increase the scientific knowledge of the interrelationships of 1) treated wastewater discharges, 2) other water discharges, and 3) other inputs, with the aquatic ecological systems in the Southern California coastal waters and, thereby, to ensure protection and conservation of these resources. The Authority makes a strong effort to effectively communicate their research findings and recommendations through a variety of media to the public.

The Authority was formed by a Joint Powers Agreement originally dated September 10, 1969. On March 2, 2012, the Commission approved the Authority's 8th amended Joint Powers Agreement for the period of July 1, 2013, to June 30, 2017; on December 4, 2015, the Commission approved the 9th amended Joint Powers Agreement for the period of July 1, 2017, to June 30, 2021; on March 6, 2020, the Commission approved the 10th amended Joint Powers Agreement for the period of July 1, 2021, to June 30, 2026.

The Commission of the Authority is composed of fourteen commissioners. One Commissioner (and one alternate) is appointed by each party to the Commission from each of the following: the United States Environmental Protection Agency, Region IX; the Los Angeles, Santa Ana, and San Diego regions of the California Regional Water Quality Control Board; the California State Water Resources Control Board, the City of Los Angeles Bureau of Sanitation, Los Angeles County Sanitation Districts, Orange County Sanitation District, the Ventura County Watershed Protection District, Los Angeles County Flood Control District, County of Orange Public Works Department, the City of San Diego Public Utilities Department, County of San Diego and the Ocean Protection Council.

B) Basis of Accounting and Measurement Focus

The basic financial statements of the Authority are comprised of the following:

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

Government-Wide Financial Statements: These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all the Authority's assets and liabilities, including capital assets, are included in the accompanying Statements of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statements of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) Basis of Accounting and Measurement Focus (continued)

The types of transactions reported as program revenues for the Authority are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grants and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements: These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all major governmental funds. The Authority has presented its General Fund, as its major fund, in this statement to meet the qualification of Governmental Accounting Standards Board (GASB) Statement No. 34.

Governmental funds are accounted for on a spending, or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, current assets, liabilities, and deferred outflows/inflows of resources are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to financial expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally within 120-days after year-end) are recognized when due. The primary sources susceptible to accrual for the Authority are interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The Authority reports the following major governmental fund:

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

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C) Financial Reporting

The Authority's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Authority has adopted the following GASB pronouncements in the current year:

Governmental Accounting Standards Board Statement No. 91

In August 2018, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The provisions of this Statement are effective for fiscal years beginning after December 15, 2021. The Authority implemented this standard during the current year with no significant result.

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Partnerships*. The primary objectives of this Statement is to improve financial reporting by addressing issues related to these arrangements. The provisions of this Statement are effective for fiscal years beginning after June 15, 2022. The Authority implemented this standard during the current year with no significant result.

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The provisions of this Statement are effective for fiscal years beginning after June 15, 2022. The Authority implemented this standard during the current year with no significant result.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C) Financial Reporting (continued)

Governmental Accounting Standard Board Statement No. 99

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The implementation has varied dates, with the earliest effective upon issuance (please see the statement for further details). The Authority implemented certain provisions of this standard during the current year with no significant result.

D) Assets, Liabilities, Net Position and Fund Equity

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make certain estimates and assumptions. Actual results could differ from those estimates.

Cash and Cash Equivalents

Substantially all of Authority's cash is invested in interest bearing cash accounts. The Authority considers all highly liquid investments with initial maturity of three months to be cash equivalents.

Investments and Investment Policy

The Authority has adopted an investment policy directing the Treasurer to deposit funds in financial institutions. Investments are to be made in the following areas:

- Securities of the U.S. Government or its agencies.
- Money market savings, passbook savings and checking, and certificates of deposit
- State of California Local Agency Investment Fund (LAIF)
- Los Angeles County's Pooled Surplus Investments (LACPSI)

Changes in fair value that occur during a fiscal year are recognized as investment earnings reported for that fiscal year. Investment earnings includes interest earning, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. The basic premise of the Authority's investment strategy is to ensure that money is always available when needed and at the same time earning the highest and best return.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D) Assets, Liabilities, Net Position and Fund Equity (continued)

Accounts Receivable

The Authority provides contract research services to a variety of organizations typically on a reimbursement basis. Management deems all accounts receivable collectible at year end. Accordingly, an allowance for uncollectible accounts has not been recorded.

Prepaid Items

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure/expense when consumed rather than when purchased.

Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, buildings and improvements, equipment and furniture, vehicles, and construction-in-process. Authority policy has set the capitalization threshold for reporting capital assets at \$25,000. Donated assets are recorded at their estimated acquisition value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the Authority's capitalization threshold is met.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Leasehold Improvements - 12 years
- Equipment and Furniture - 5 to 7 years
- Vehicles - 5 years

Compensated Absences

It is the Authority's policy to permit employees to accumulate a limited amount of earned vacation and sick leave. Full-time employees accrue vacation pay at a rate often (10) working days for the first four (4) full years of employment, fifteen (15) days for the fifth through the ninth year of employment, eighteen (18) days for the tenth through the fourteenth year of employment and twenty (20) days for the fifteenth year of employment and thereafter. Vacation time may be accumulated for up to three hundred and twenty (320) hours. Accumulated vacation time is accrued at year-end to account for the Authority's obligation to the employees for the amount owed. Sick leave for full-time employees is accrued at a rate of twelve (12) days per calendar year and may be used for sickness, disability, or personal reasons. Up to 720 hours of sick leave may be accumulated. Part-time, temporary, and contract employees are not eligible to accrue vacation pay.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D) Assets, Liabilities, Net Position and Fund Equity (continued)

Fund Equity

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.

Restricted Net Position - This component of net position consists of external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This component of net position consists of amounts that are not included in the determination of restricted net position or net investment in capital assets.

It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position.

Fund Balance

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

Nonspendable fund balance - amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes determined by formal action of the Authority's highest level of decision-making authority (the Commission) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

Assigned fund balance - amounts that are constrained by the Authority's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a designated body or an official.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D) Assets, Liabilities, Net Position and Fund Equity (continued)

Unassigned fund balance - the residual classification for the Authority's general fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

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

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

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

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

Budgetary

The Authority follows specific procedures in establishing the budgetary data reflected in the financial statements. Each June, the Authority's Executive Director prepares and submits an ongoing budget to the Commission for the General Fund. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting.

2) CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2023, consist of the following:

Deposits Held with Financial Institutions	\$ 133,392
Deposits Held with Local Agency Investment Fund (LAIF)	1,073,788
Deposits Held with Los Angeles County Pool (LACPSI)	<u>2,424,890</u>
Total	<u>\$ 3,632,070</u>

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

2) CASH AND CASH EQUIVALENTS (continued)

As of June 30, 2023, the Authority's authorized deposits had the following maturities:

Deposits Held with Local Agency Investment Fund (LAIF)	260 Days
Deposits Held with Los Angeles County Pool (LACPSI)	923 Days

Investment in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's prorated share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The Authority's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for order received after 10:00 a.m.
- Maximum limit of 15 transactions (combinations of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of \$1,000.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

Investment in Los Angeles County Investment Pool

The Authority is a voluntary participant in the Los Angeles County Investment Pool regulated by the California Government Code. The cash flow needs of participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of those participants. At the time deposits are made, the Los Angeles County Investment Pool's Treasurer may require the depositing entity to provide annual cash flow projections or an anticipated withdrawal schedule for deposits in excess of \$1 million. Projections are to be performed no less than semi-annually. In accordance with the California Government Code, all requests for withdrawal of funds for the purpose of investing or depositing the funds elsewhere shall be evaluated to ensure the proposed withdrawal will not adversely affect the principal deposits of the other participants.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

2) CASH AND CASH EQUIVALENTS (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Authority's investment policy 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. Of the Authority's bank balance, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the California Government Code; however, the collateralized securities are not held in the Authority's name.

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 party policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. 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 (such as 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 investment policy follows the California Government Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

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; however, LAIF and LACPSI are not rated.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

2) CASH AND CASH EQUIVALENTS (continued)

Concentration of Credit Risk

The Authority's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or nongovernmental issuer as stipulated by the California Government Code. The Authority's deposit portfolio with governmental agencies, LAIF and LACPSI are 30% and 67% of the Authority's total depository and investment portfolio, respectively. Investments issued or explicitly governed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this disclosure requirement. There were no investments in any one non-governmental issuer that represent 5% or more of the Authority's total investments.

3) FAIR VALUE MEASUREMENTS

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- *Level 1* - Valuation is based on quoted prices in active markets for identical assets.
- *Level 2* - Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market- corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- *Level 3* - Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity, and other assumptions that are internally generated and cannot be observed in the market.

Fair value of assets measured on a recurring basis as of June 30, 2023, are as follows:

	<u>Fair Value</u>	<u>Uncategorized</u>
Money Market Funds	\$ 133,392	\$ 133,392
Local Agency Investment Fund	1,073,788	1,073,788
Los Angeles County Pool	2,424,890	2,424,890
Total	<u>\$ 3,632,070</u>	<u>\$ 3,632,070</u>

The Authority's investments do not fall under the fair value hierarchy (i.e., uncategorized) as there is no active market for the investments.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

4) CAPITAL ASSETS

Changes in capital assets for the year were as follows:

	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
Depreciable/amortizable assets:				
Equipment and furniture	\$ 3,499,606	\$ 59,685	\$ -	\$ 3,559,291
Right to use asset - building	3,504,032	-	-	3,504,032
Leasehold improvements	1,742,461	-	-	1,742,461
Vehicles	81,351	-	-	81,351
Total depreciable/amortizable assets	8,827,450	59,685	-	8,887,135
Accumulated depreciation/amortization	<u>(5,361,959)</u>	<u>(566,737)</u>	-	<u>(5,928,696)</u>
Total depreciable/amortizable assets, net	3,465,491	<u>\$ (507,052)</u>	<u>\$ -</u>	2,958,439
Total capital assets, net	<u>\$ 3,465,491</u>			<u>\$ 2,958,439</u>

Major capital assets additions during the year include new equipment of \$59,685. Total depreciation/amortization expense for the fiscal year ended June 30, 2023 was \$566,737. As of June 30, 2023, the value of the right to use asset was \$3,504,032 with accumulated amortization of \$1,168,010.

5) COMPENSATED ABSENCES

The net change compensated absences as of June 30, 2023 are as follows:

	<u>Beginning Balance</u>	<u>Net Change</u>	<u>Ending Balance</u>
Compensated Absences	<u>\$ 354,767</u>	<u>\$ 46,379</u>	<u>\$ 401,146</u>

6) UNEARNED REVENUE

As of June 30, 2023, unearned revenue consisted of the following amounts received as an advance for membership contributions and other contracts applicable to the future fiscal years is as follows:

	<u>2023</u>
Los Angeles County	\$ 205,106
National Philanthropic Trust	<u>819,279</u>
Total	<u>\$ 1,024,385</u>

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

7) FUND BALANCE

Fund balance is presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (see Note 1D for a description of these categories). A detailed schedule of fund balances and their funding composition as of June 30, 2023 is as follows:

Fund Balance Category	
Nonspendable	\$ 61,050
Assigned:	
Compensated Absences	401,146
Unassigned Fund Balance:	<u>4,028,504</u>
Total Fund Balance	<u>\$ 4,490,700</u>

8) RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has purchased various commercial insurance coverage to limit the risk of loss for the above-named sources. Also, the Authority has obtained workers' compensation coverage to the statutory limits.

9) EMPLOYEE BENEFIT PLAN

All full-time employees of the Authority participate in a SEP-IRA (Simplified Employee Pension-Individual Retirement Account). Contributions equal to 7.50% of the employees' compensation, as defined, are required to be paid by the Authority. All contributions vest 100% to the employees when made. All full-time employees are eligible to participate in the Authority's voluntary 403(b) tax-deferred retirement plan. The Authority matches 100% of the employee's contribution, up to 6% of the employee's salary. The match is vested over a four-year period. The Authority contributed \$568,828 to both plans for the fiscal year ended June 30, 2023.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

10) LEASE LIABILITY

Facilities Lease

On June 20, 2006, the Authority entered into a (12-year) lease for new expended facilities and effective June 1, 2019 have amended the lease for an additional 10-year term (non-cancelable lease terms are in excess of one year). The lease has an interest rate of 6.0%. The Authority made fixed monthly payments of \$40,791 in the current fiscal year (the lease includes a 3.0% per year escalator). As of June 30, 2023, the value of the right to use asset was \$3,504,032 with accumulated amortization of \$1,168,010. Changes in the lease liability for the year were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Building lease	\$3,046,516	\$ -	\$(334,174)	\$ 2,712,342	\$ 370,450

The following is a summary of the future required payments due:

Fiscal Year	Principal	Interest	Total
2024	\$ 370,450	\$ 173,785	\$ 544,235
2025	409,430	152,750	562,180
2026	451,299	129,465	580,764
2027	496,249	103,763	600,012
2028	544,485	75,465	619,950
2029	440,429	55,465	495,894
Total	\$ 2,712,342	\$ 690,693	\$ 3,403,035

11) GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

Governmental Accounting Standard Board Statement No. 100

In June 2022, GASB issued Statement No. 100, *Accounting for Changes and Error Corrections*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The Authority has elected not to early implement the statement and has not determined its effect on its financial statements.

Southern California Coastal Water Research Project Authority

Notes to Financial Statements For the Fiscal Year Ended June 30, 2023

11) CONTINGENCIES

Grants

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

Litigation

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

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Required Supplementary Information

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Southern California Coastal Water Research Project Authority

Budgetary Comparison Schedule General Fund For the Fiscal Year Ended June 30, 2023

	Adopted Original Budget	Board Approved Changed	Revised/ Final Budget	Actual	Variance with Final Budget
Revenues					
Intergovernmental revenues:					
Contract research studies	\$ 9,041,420	\$ -	\$ 9,041,420	\$ 7,058,420	\$ (1,983,000)
Federal grant awards	-	-	-	1,044,232	1,044,232
Federal contract research	-	-	-	207,239	207,239
Operating contributions from members	2,652,252	-	2,652,252	2,652,252	-
Interest earnings	15,000	-	15,000	84,530	69,530
Total Revenues	11,708,672	-	11,708,672	11,046,673	(661,999)
Expenditures					
Current:					
Salaries and benefits	7,062,813	-	7,062,813	6,802,777	(260,036)
Scientific services and supplies	2,233,859	-	2,233,859	3,025,295	791,436
Facilities	1,570,000	-	1,570,000	979,130	(590,870)
Materials and services	442,000	-	442,000	311,200	(130,800)
Debt service:					
Principal	-	-	-	334,174	334,174
Interest	-	-	-	173,785	173,785
Capital outlay - scientific equipment	400,000	-	400,000	59,685	(340,315)
Total Expenditures	11,708,672	-	11,708,672	11,686,046	(22,626)
Excess (Deficiency) of Revenues over Expenditures	-	\$ -	-	(639,373)	\$ (639,373)
Fund Balance, beginning of year	5,130,073		5,130,073	5,130,073	
Fund Balance, end of year	\$ 5,130,073		\$ 5,130,073	\$ 4,490,700	

Southern California Coastal Water Research Project Authority

Note to Required Supplementary Information For the Fiscal Year Ended June 30, 2023

1. BUDGETS AND BUDGETARY DATA

The Authority follows specific procedures in establishing the budgetary data reflected in the financial statements. Each June, the Authority's Executive Director prepares and submits an operating budget to the Commission for the General Fund. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Commissioners must approve all supplemental appropriations to the budget and transfers between major accounts. The Authority's annual budget is adopted for the General Fund at the detailed expenditure-type level.

The Authority presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditures amounts represent the adopted budget adjusted for Board approved supplemental appropriations, if any. The budgeted revenue amounts represent the adopted budget as originally approved.

Report on Internal Control and Compliance

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**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**

Independent Auditor's Report

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Southern California Coastal Water Research Project Authority (the Authority), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 20, 2023.

Report on Internal Control over Financial Reporting

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

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

MEMBERS

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Certified Public Accountants

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Quality Center*

California Society of
Certified Public Accountants



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

The Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
November 20, 2023

Finding 2023-001

Significant Deficiency in Internal Control over Financial Reporting – Inadequate Segregation of Duties

Criteria and Condition

During our audit of the Authority, we noted a lack of segregation of duties in the Authority's accounting process. Proper segregation of duties dictates that the functions of recording, authorization, custody and execution are not dominated by one individual. An adequate segregation of duties requires that one individual does not handle a transaction from its inception to its completion. Adequately segregated duties helps to reduce the possibility of fraud and defalcations from occurring and to ensure the integrity of the information provided by the Authority's financial reporting system.

Context

We observed inadequate segregation of duties over the journal entry process by performing observations of processes and interviews of personnel and management.

Effect or Potential Effect

Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to financial reporting, including misappropriation of assets, could occur and not be detected within a timely basis.

Auditor's Recommendation

An adequate segregation of duties requires that one individual does not handle a transaction from its inception to its completion. However, we realize that this is due to the limited number of individuals available to the Authority to perform numerous, and sometimes incompatible duties. We recommend that all journal entries are approved by appropriate personnel. We believe it is important for management and the Board of Directors to be aware that whenever a limited number of people are in control of the accounting process, the system is far more susceptible to errors or other irregularities, either intentional or unintentional, not being discovered.

Views of Responsible Officials and Planned Corrective Actions

Management recognizes the auditor's concerns and continues to work on its segregation of duties. It is not uncommon for an entity of our size to have limited staff, however the Authority will continue to assess and strengthen internal controls to the extent possible. A listing of journal entries will be reviewed and approved monthly by the Office Manager.