

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2005

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of South Bay Cities Council of Governments
El Segundo, California

We have audited the accompanying basic financial statements of the South Bay Cities Council of Governments Joint Powers Authority (Authority) as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Authority has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2005 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lance, Soll & Lunghard, LLP

September 15, 2005



SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

Exhibit A

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2005**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets:			
Cash and investments	\$ 403,140	\$ -	\$ 403,140
Accounts receivable	123,673	-	123,673
Interest receivable	2,211	-	2,211
Deposits	3,002	-	3,002
Prepaid expenses	4,127	-	4,127
	Total Assets	\$ -	\$ 536,153
Liabilities:			
Accounts payable	\$ 87,252	\$ -	\$ 87,252
Deferred revenue	5,002	(5,002)	-
Unearned revenue	205,185	-	205,185
	Total Liabilities	(5,002)	292,437
Fund Balances and Net Assets:			
Fund balances:			
Reserved:			
Reserved for prepaid expenses	4,127	(4,127)	-
Unreserved:			
Undesignated	234,587	(234,587)	-
	Total Fund Balances	(238,714)	-
	Total Liabilities and Fund Balances		
	\$ 536,153		
Net assets:			
Unrestricted		238,714	243,716
		\$ 238,714	\$ 243,716

See Notes to Financial Statements

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

Exhibit B

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
JUNE 30, 2005**

	General Fund	Adjustments	Statement of Activities
Revenues:			
Southern California Association of Governments	\$ 22,132	\$ -	\$ 22,132
Membership dues	199,998	-	199,998
LAIF interest	7,077	-	7,077
Grant revenue	383,189	-	383,189
Miscellaneous	47,295	5,002	52,297
	659,691	5,002	664,693
Expenditures:			
Contractual services	165,718	-	165,718
Special projects	406,412	-	406,412
Supplies and services	29,260	-	29,260
	601,390	-	601,390
Excess (Deficiency) of Revenues Over (Under) Expenditures	58,301	5,002	63,303
Fund Balance/Net Assets:			
Beginning of year	180,413	-	180,413
End of year	\$ 238,714	\$ 5,002	\$ 243,716

See Notes to Financial Statements

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The South Bay Cities Council of Governments is a reporting entity which consists of the primary government:

Reporting Entity:

Primary Government:

The South Bay Cities Council of Governments Joint Powers Authority

The South Bay Cities Council of Governments Joint Powers Authority (Authority) was created pursuant to the California Government Code. The Authority is a voluntary establishment created by its members for the purpose of providing a vehicle for the members to engage in regional and cooperative planning and coordination of government services and responsibilities to assist the members in the conduct of their affairs. In addition, the Authority provides a regional organization for the review of federal, state and/or regional projects and studies that involve the use of federal, state and/or regional funds in various forms.

The Authority's organizational documents consist of a joint powers agreement and a set of bylaws. Among other things, these organizational documents establish a governing board to conduct the affairs of the Authority. The legislative body of each member agency selects one of its members to be the agency's representative to the Authority's governing board, and another of its members to be the agency's alternative representative.

The Authority has the following members:

- Carson
- El Segundo
- Gardena
- Hawthorne
- Hermosa Beach
- Inglewood
- Lawndale
- Lomita
- Los Angeles
- Manhattan Beach
- Palos Verdes Estates
- Rancho Palos Verdes
- Redondo Beach
- Rolling Hills
- Rolling Hills Estates
- Torrance

**South Bay Cities Council of Governments
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Governmental activities are normally supported by taxes and intergovernmental revenues.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

d. Assets, Liabilities and Net Assets or Equity

1. Investments

Investments for South Bay Cities Council of Governments are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

All trade receivables are shown net of an allowance for uncollectibles.

3. Prepaid Items

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

e. Deferred Revenue

Revenues totaling \$86,162, which were received for advance payment of membership dues, have been recorded as unearned revenue for revenues received but not yet earned as of June 30, 2005. In addition, \$119,023 has also been recorded as unearned revenue for a cash advance from SCE to be held, which is related to the SCG/SCE grant.

Revenues totaling \$5,002, which were received for project reimbursements, have been recorded as deferred revenue until such time as those revenues meet the recognition criteria.

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

a. Budgetary Data

General Budget Policies

The Authority adopts a budget as a management tool. The annual budget is prepared by the administrator and is presented to the Authority Board of Directors by June of the prior fiscal year. The budget is adopted in July.

III. DETAIL NOTES ON ACCOUNT GROUPS

Note 3: Cash and Investments

As of June 30, 2005, cash and investments were reported in the accompanying financial statements as follows:

Total Cash and Investments	<u>\$ 403,140</u>
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The Authority maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the combined balance sheet as cash and investments. The Authority has adopted an investment policy which authorizes it to invest in various investments.

Deposits

At June 30, 2005, the carrying amount of the Authority's deposits was \$91,464 and the bank balance was \$95,362. The \$3,898 difference represents outstanding checks.

The California Government Code requires California banks and savings and loan associations to secure an Authority's deposits by pledging government securities with a value of 110% of an Authority's deposits. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of an Authority's total deposits. The Authority Treasurer may waive the collateral requirement for deposits that are fully insured up to \$100,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

Investments

Under provision of the Authority's investment policy and in accordance with the California Government Code, the following investments are authorized:

- Local Agency Investment Fund (State Pool)
- Los Angeles County Pooled Investment Fund
- Certificates of Deposit
- U.S. Government Agency Securities
- Money Market Savings Account

Investments Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Authority's investment policy.

**South Bay Cities Council of Governments
Notes to Financial Statements (Continued)**

Note 3: Cash and Investments (Continued)

Investments in State Investment Pool

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

GASB Statement No. 31

The Authority adopted GASB Statement No. 31, Accounting and Financial Reporting for certain investments and for External Investment Pools, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the Authority reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Credit Risk

The Authority's cash consists of one demand deposit account and an investment in the State Treasury Investment Pool. Investments in U.S. government securities are not considered to have credit risk; therefore, their credit quality is not disclosed. As of June 30, 2005, the Authority's investments in external investment pools and money market mutual funds are unrated.

Custodial Credit Risk

The 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 deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2005, none of the Authority's deposits or investments was exposed to custodial credit risk.

Concentration of Credit Risk

The Authority's investment policy imposes restrictions on the percentage that the Authority can invest in certain types of investments. As of June 30, 2005, in accordance with GASB 40 requirements, the Authority has not invested more than 5% of its total investments in any one issuer. Investments guaranteed by the U.S. government, and investments in mutual funds and external investment pools are excluded from this requirement.

Interest Rate Risk

The Authority's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority has elected to use the segmented time distribution method of disclosure for its interest rate risk.

**South Bay Cities Council of Governments
Notes to Financial Statements (Continued)**

Note 3: Cash and Investments (Continued)

As of June 30, 2005, the Authority had the following investments and original maturities:

	<u>Remaining Investment Maturities 6 months or less</u>	<u>Fair Value</u>
California Local Agency Investment Fund	<u>\$ 311,676</u>	<u>\$ 311,676</u>
Total Investments	<u><u>\$ 311,676</u></u>	<u><u>\$ 311,676</u></u>