

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS**

**FINANCIAL STATEMENTS**

**June 30, 2012**

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
ANNUAL FINANCIAL STATEMENTS  
June 30, 2012**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the South Bay Cities Council of Governments Joint Powers Authority (the "Authority") as of and for the fiscal year ended June 30, 2012 which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective July 1, 2011.

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, 2012, and the changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented a management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States

of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Moss, Levy & Hartzheim, LLP  
Culver City, California  
December 3, 2012

## **BASIC FINANCIAL STATEMENTS**

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
STATEMENT OF NET ASSETS  
As of June 30, 2012**

	<u>Net Assets</u>
<b>Assets</b>	
Cash and investments	\$ 316,204
Accounts receivable	654,959
Interest receivable	50
Deposits	10,739
Prepaid expenses	4,508
Total Assets	986,460
 <b>Liabilities</b>	
Accounts payable	\$ 160,944
Accrued liabilities	48,890
Unearned revenue	321,206
Total Liabilities	531,040
 Net assets:	
Unrestricted	443,971
Restricted	11,449
Total Net Assets	\$ 455,420

See notes to financial statements

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2012**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Assets Governmental Activities</u>
Functions/programs		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
General government	<u>\$ 2,204,884</u>	<u>\$ 409,282</u>	<u>\$ 1,878,785</u>	<u>\$ 83,183</u>
Total Governmental activities	<u>\$ 2,204,884</u>	<u>\$ 409,282</u>	<u>\$ 1,878,785</u>	<u>83,183</u>
General revenues:				
Interest				
				<u>201</u>
Total general revenues				<u>201</u>
Change in net assets				83,384
Net assets, beginning of fiscal year				<u>372,036</u>
Net assets, end of fiscal year				<u>\$ 455,420</u>

See notes to financial statements

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
BALANCE SHEET  
GOVERNMENTAL FUND  
As of June 30, 2012**

	<u>General Fund</u>
<b>Assets</b>	
Cash and investments	\$ 316,204
Accounts receivable	654,959
Interest receivable	50
Deposits	10,739
Prepaid expenses	4,508
Total Assets	\$ 986,460
<b>Liabilities and Fund Balances</b>	
Accounts payable	\$ 160,944
Accrued liabilities	48,890
Unearned revenue	321,206
Total Liabilities	531,040
Fund balances:	
Nonspendable:	
Deposits	10,739
Prepaid expenses	4,508
Assigned	11,449
Unassigned	428,724
Total Fund Balances	455,420
Total Liabilities and Fund Balances	\$ 986,460

See notes to financial statements



**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
RECONCILIATION OF BALANCE SHEET OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF NET ASSETS  
As of June 30, 2012**

Fund balance of the governmental fund	<u>\$ 455,420</u>
Net assets of governmental activities	<u><u>\$ 455,420</u></u>

See notes to financial statements

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
For the Fiscal Year Ended June 30, 2012**

	<u>General Fund</u>
<b>Revenues:</b>	
Intergovernmental from members	\$ 292,623
Grant revenue and contributions	1,995,444
Investment earnings	<u>201</u>
Total Revenues	<u>2,288,268</u>
<b>Expenditures:</b>	
Current:	
General Government	<u>2,204,884</u>
Total Expenditures	<u>2,204,884</u>
Net change in fund balance	83,384
Fund balance, beginning of fiscal year	<u>372,036</u>
Fund balance, end of fiscal year	<u><u>\$ 455,420</u></u>

See notes to financial statements

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
For the fiscal year ended June 30, 2012**

Net change in fund balance of the governmental fund	<u>\$ 83,384</u>
Change in net assets of governmental activities	<u><u>\$ 83,384</u></u>

See notes to financial statements

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**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
- County of Los Angeles —  
Districts 2 & 4
- 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

**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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the entity considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**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.

**4. Unearned Revenue**

Receipts totaling \$292,623 for membership dues and assessment for climate action plan for the 2011/2012 fiscal year have been recorded as unearned revenue at June 30, 2012. In addition, \$28,583 received from the Los Angeles County Sanitation District grant has been recorded as unearned revenue since related expenditures have not been incurred at June 30, 2012.

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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

**d. Assets, Liabilities, and Net Assets or Equity (Continued)**

5. Fund Equity

In the fund financial statements, governmental funds report the following fund balance classifications:

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

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority.

Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. This includes \$11,499 of dues related to climate action planning assessments.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications.

**Note 2: Stewardship, Compliance, and Accountability**

**Budgetary Data**

General Budget Policies

The Authority adopts a budget as a management tool. It is prepared in accordance with accounting principles generally accepted in the United States of America. 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.

There is a separate grant budget. Since this grant budget is separate it is not included in the budget amounts in the Schedule of Revenues, Expenditures, and Changes in Fund Balance. This is the reason there is a large budget to actual variances in the Grant Revenue and Special Project's accounts.

**Note 3: Cash and Investments**

As of June 30, 2012, cash and investments were reported in the accompanying financial statements as follows:

Total Cash and Investments	<u>\$ 316,204</u>
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**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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**Note 3: Cash and Investments (Continued)**

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**

The California Government Code requires California banks and savings and loan associations to secure a government entity's deposits by pledging government securities with a value of 110% of an Authority's deposits. California law also allows financial institutions to secure 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 \$250,000 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.

**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.



**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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**Note 3: Cash and Investments (Continued)**

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, 2012, the Authority's investments in external investment pools and money market mutual funds are unrated.

On Aug. 5, 2012, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States of America to AA+ from AAA. As a result, on Aug. 8, 2012, Standard & Poor's Ratings Services lowered its issuer credit ratings and related issue ratings on various Federal Home Loan Bank, Federal Farm Credit Bank, Fannie Mae and Freddie Mac to AA+ from AAA. The Authority invests in LAIF which invests in various underlying securities, including the federal agency securities listed above. While LAIF is not rated, the federal agency securities are, and these have been affected by this rating change.

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, 2012, 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, 2012, 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.

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012**

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**Note 3: Cash and Investments (Continued)**

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.

As of June 30, 2012, the Authority had the following investments and original maturities:

	<u>Remaining Investment Maturities</u> 6 months or less	<u>Fair Value</u>
California Local Agency Investment Fund	\$ 52,983	\$ 52,983
Total Investments	<u>\$ 52,983</u>	<u>\$ 52,983</u>

**Note 4: Leases**

The Authority maintains a sublease at the Torrance facility. Future minimum payments under this non-cancelable operating lease are as follows:

2012-2013	\$ 119,410
2013-2014	112,566
2014-2015	<u>115,943</u>
Total	<u>\$ 347,919</u>

In addition, the Authority owns two electric vehicles that were expensed in prior years due to the insignificant cost and also leases a copier. Rent expense for the fiscal year was \$83,065.

**Note 5: Management's Review of Subsequent Events**

In preparing the accompanying financial statement, Management has reviewed all known events that have occurred after June 30, 2012, and through December 3, 2012, the date when this financial statement was available to be issued, for inclusion in the financial statement and footnotes.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS  
SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
For the Fiscal Year Ended June 30, 2012**

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Membership dues	\$ 292,625	\$ 292,625	\$ 292,623	\$ (2)
LAIF interest	1,200	250	201	(49)
Grant revenue	170,635	195,635	1,878,785	1,683,150
Miscellaneous	31,000	31,000	116,659	85,659
	<u>495,460</u>	<u>519,510</u>	<u>2,288,268</u>	<u>1,768,758</u>
<b>Expenditures:</b>				
Current:				
General government:				
Contractual services	348,000	339,000	339,000	
Special projects	79,800	80,075	1,640,635	(1,560,560)
Supplies and services	151,750	161,000	225,249	(64,249)
	<u>579,550</u>	<u>580,075</u>	<u>2,204,884</u>	<u>(1,624,809)</u>
Excess (Deficiency) of Revenues over Expenditures	(84,090)	(60,565)	83,384	143,949
Fund balance, beginning of fiscal year	372,036	372,036	372,036	
Fund balance, end of fiscal year	<u>\$ 287,946</u>	<u>\$ 311,471</u>	<u>\$ 455,420</u>	<u>\$ 143,949</u>