



**SOUTH BAY CITIES COUNCIL
OF GOVERNMENTS**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
South Bay Cities Council of Governments
Rancho Palos Verdes, California

We have audited the accompanying financial statements of the South Bay Cities Council of Governments Joint Powers Authority (the "Authority") as of and for the year ended June 30, 2011. 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 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, 2011, 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.

Brea, California
November 22, 2011

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
 JUNE 30, 2011

	<u>General Fund</u>	<u>Adjustments</u>	<u>Net Assets</u>
Assets:			
Cash and investments	\$ 170,558	\$ -	\$ 170,558
Accounts receivable	789,969	-	789,969
Interest receivable	108	-	108
Deposits	5,605	-	5,605
Prepaid expenses	4,508	-	4,508
Total Assets	<u>\$ 970,748</u>	<u>-</u>	<u>\$ 970,748</u>
Liabilities:			
Accounts payable	\$ 200,400	-	\$ 200,400
Accrued liabilities	22,694	-	22,694
Unearned revenue	375,618	-	375,618
Total Liabilities	<u>598,712</u>	<u>-</u>	<u>598,712</u>
Fund Balances and Net Assets:			
Fund balances:			
Nonspendable:			
Deposits	5,605	(5,605)	
Prepaid expenses	4,508	(4,508)	-
Unassigned	361,923	(361,923)	-
Total Fund Balances	<u>372,036</u>	<u>(372,036)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 970,748</u>		
Net assets:			
Unrestricted		372,036	372,036
Total Net Assets		<u>\$ -</u>	<u>\$ 372,036</u>

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Activities</u>
Revenues:			
Membership dues	\$ 229,998	\$ -	\$ 229,998
LAIF interest	840	-	840
Grant revenue	1,994,481	-	1,994,481
Miscellaneous	202,429	-	202,429
Total Revenues	<u>2,427,748</u>	<u>-</u>	<u>2,427,748</u>
Expenditures/Expenses:			
Contractual services	348,000	-	348,000
Special projects	1,954,639	-	1,954,639
Supplies and services	137,025	-	137,025
Total Expenditures/Expenses	<u>2,439,664</u>	<u>-</u>	<u>2,439,664</u>
Excess of Revenues Over Expenditures/Expenses	(11,916)	-	(11,916)
Fund Balance/Net Assets:			
Beginning of year	383,952	-	383,952
End of year	<u>\$ 372,036</u>	<u>\$ -</u>	<u>\$ 372,036</u>

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Membership dues	\$ 230,000	\$ 230,000	\$ 229,998	\$ (2)
LAIF interest	3,000	3,000	840	(2,160)
Grant Revenue	236,250	236,250	1,994,481	1,758,231
Miscellaneous	200,135	200,135	202,429	2,294
Total Revenues	669,385	669,385	2,427,748	1,758,363
Expenditures:				
Contractual services	348,000	348,000	348,000	-
Special projects	181,270	181,270	1,954,639	(1,773,369)
Supplies and services	136,030	136,030	137,025	(995)
Total Expenditures	665,300	665,300	2,439,664	(1,774,364)
Excess of Expenditures over Revenues	\$ 4,085	\$ 4,085	(11,916)	\$ (16,001)
Fund Balance:				
Beginning of fiscal year			383,952	
End of fiscal year			\$ 372,036	

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
- 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

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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 \$321,206 for membership dues and assessment for climate action plan for the 2011/2012 fiscal year have been recorded as unearned revenue at June 30, 2011. In addition, \$54,412 received from SCE for the SCG/SCE grant has been recorded as unearned revenue since related expenditures have not been incurred at June 30, 2011.

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

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

5. Fund Equity

In the fund financial statements, government funds report the following fund balance classification:

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 or 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.

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.

II. STEWARDSHIP

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 generally accepted accounting principles. 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. DETAILED NOTES

Note 3: Cash and Investments

As of June 30, 2011, cash and investments were reported in the accompanying financial statements as follows:

Total Cash and Investments	<u>\$ 170,558</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.

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2011

Note 3: Cash and Investments (Continued)

Deposits

At June 30, 2011, the carrying amount of the Authority's deposits was \$117,880 and the bank balance was \$241,483. The \$123,603 difference represents outstanding checks and deposits in transit.

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, 2011

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, 2011, the Authority's investments in external investment pools and money market mutual funds are unrated.

On Aug. 5, 2011, 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, 2011, 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 City 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, 2011, 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, 2011, 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, 2011

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, 2011, 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	<u>\$ 52,678</u>	<u>\$ 52,678</u>
Total Investments	<u><u>\$ 52,678</u></u>	<u><u>\$ 52,678</u></u>