South Bay Cities Council of Governments

Torrance, California

Independent Auditors' Report and Basic Financial Statements

For the Year Ended June 30, 2021

THE PUN GROUP
ACCOUNTANTS & ADVISORS

South Bay Cities Council of Governments
Financial Statements
For the Years Ended June 30, 2021

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THE PUN GROUP
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the South Bay Cities Council of Governments (the "Authority"), as of and for the year ended June 30, 2021, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2021, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule on page 27 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 (the "GASB") 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the GASB, 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2022, 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 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.

The Pun Group, LLP

Santa Ana, California
January 27, 2021

BASIC FINANCIAL STATEMENTS

South Bay Cities Council of Governments
Statement of Net Position
June 30, 2021

	Governmental Activities
ASSETS	
Cash and investments	$ 1,931,992
Accounts receivable	1,144,201
Interest receivable	2,328
Prepaid items	19,770
Deposits	13,362
Total assets	3,111,653
LIABILITIES	
Current liabilities:	
Accounts payable	583,181
Accrued liabilities	47,467
Unearned revenue	1,170,526
Compensated absences, due within one year	24,735
Total current liabilities	1,825,909
Noncurrent liabilities:	
Compensated absences, due in more than one year	74,203
Total noncurrent liabilities	74,203
Total liabilities	1,900,112
NET POSITION	
Unrestricted	1,211,541
Total net position	$ 1,211,541

See accompanying Notes to the Basic Financial Statements.

South Bay Cities Council of Governments
Statement of Activities
For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Total
Governmental Activities:				
General government	$ 3,602,170	$ 57,800	$ 3,502,817	$ (41,553)
Total governmental activities	$ 3,602,170	$ 57,800	$ 3,502,817	(41,553)
General revenues:				
Interest				6,487
Total general revenues				6,487
Change in Net Position				(35,066)
Net Position, beginning of the year				1,246,606
Net Position, end of the year				$ 1,211,541

See accompanying Notes to the Basic Financial Statements.

South Bay Cities Council of Governments
Balance Sheet
Governmental Fund
June 30, 2021

		General Fund
ASSETS		
Current Assets:		
Cash and investments	$	1,931,992
Accounts receivable		1,144,201
Interest receivable		2,328
Prepaid items		19,770
Deposits		13,362
Total Assets	$	3,111,653
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities:		
Accounts payable	$	583,181
Accrued liabilities		47,467
Unearned revenue		1,170,526
Total Liabilities		1,801,174
Deferred Inflow of Resources:		
Unavailable revenues		99,304
Total deferred inflows of resources		99,304
Fund Balance:		
Nonspendable:		
Prepaid items		19,770
Deposits		13,362
Committed:		
Stabilization arrangements		297,328
Unassigned		880,715
Total fund balance		1,211,175
Total liabilities, deferred inflows of resources, and fund balance	$	3,111,653

See accompanying Notes to the Basic Financial Statements.

South Bay Cities Council of Governments
Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Position
June 30, 2021

Total Governmental Fund Balance	$	1,211,175
Unavailable revenues are not available to pay for current period expenditures and therefore are deferred in the funds but recognized as revenue in the Statement of Activities.		99,304
Compensated absences 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		(98,938)
Net position of governmental activities	$	1,211,541

See accompanying Notes to the Basic Financial Statements.

South Bay Cities Council of Governments
Statement of Revenues, Expenditures, and Change in Fund Balance
Governmental Fund
For the Year Ended June 30, 2021

		General Fund
REVENUES:		
Intergovernmental	$	392,499
Charges for services		57,800
Grants and contributions		3,146,268
Use of money and property		6,487
Total revenues		3,603,054
EXPENDITURES:		
Current:		
General government		3,560,423
Total expenditures		3,560,423
NET CHANGE IN FUND BALANCE		42,631
FUND BALANCE:		
Beginning of Year, as restated (Note 10)		1,168,543
End of Year	$	1,211,175

See accompanying Notes to the Basic Financial Statements.

South Bay Cities Council of Governments

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Government-Wide Statement of Activities

For the Year Ended June 30, 2021

Net change in fund balance of the governmental fund	$	42,631
Revenues that are measurable but not available and are reported as unavailable revenue under the modified accrual basis of accounting in the governmental fund.		(35,950)
Compensated absences were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, compensated absences were not reported as expenditures in the governmental fund.		(41,747)
Change in net position of governmental activities	$	(35,066)

See accompanying Notes to the Basic Financial Statements.

South Bay Cities Council of Governments
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2021

	Dominguez Channel Custodial Funds
ASSETS	
Current assets:	
Cash and investments	$ 1,300,924
Total assets	1,300,924
LIABILITIES	
Current liabilities:	
Accounts payable	195,686
Total liabilities	195,686
NET POSITION (DEFICIT)	
Restricted for other governments	1,105,238
Total net position	$ 1,105,238

See accompanying Notes to the Basic Financial Statements.

South Bay Cities Council of Governments
Statement of Change in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2021

	Dominguez Channel Custodial Funds
ADDITION:	
Receipt from other governments	$ 938,759
Total assets	938,759
DEDUCTION:	
Disbursement for Dominquez Channel expenses	1,044,352
Total deferred outflows of resources	1,044,352
Change in net position	(105,593)
NET POSITION:	
Beginning of year, as restated (Note 10)	1,210,831
End of year	$ 1,105,238

See accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Note 1 – Organization and Summary of Significant Accounting Policies

The basic financial statements of the South Bay Cities Council of Governments, California, (the "Authority") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as applied to governmental agencies. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

A. Description of Financial Reporting Entity

The Authority is the primary government 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 Authority's representative to the Authority's governing board, and another of its members to be the Authority's alternative representative.

The Authority has the following members:

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

B. Basis of Accounting and Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Authority resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

B. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all the Authority's assets and liabilities are included in the accompanying Statement 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 they are earned while expenses are recognized in the period in which the liability is incurred. Fiduciary activities are not included in these statements.

Certain types of transactions are reported as program revenues for the Authority in two categories

- Charges for Services
- Operating Grants and Contributions

Governmental Fund Financial Statements

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

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 these purposes, the Authority considers revenues to be available if they are collected within 60 days of the end of the current period. The primary revenue sources, which have been treated as susceptible to accrual by the Authority, are intergovernmental revenue, grants and contributions, and interest revenue. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliations of the fund financial statements to the Governmental-Wide Financial Statements are provided to explain the differences.

The Authority reports the following major governmental fund:

- General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Position and a Statement of Changes in Fiduciary Net Position. The Authority's fiduciary fund represent custodial funds. The fiduciary fund is accounted for on the full accrual basis of accounting where the assets associated with the activity are controlled by the Authority and the assets are not derived 1) solely from the government's own-source revenues or 2) from government-mandated nonexchange transactions or voluntary nonexchange transactions.

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

B. Basis of Accounting and Measurement Focus (Continued)

The Authority reports the following fiduciary fund:

- Custodial Fund – To accounts for assets received from the cities of Carson, El Segundo, Hawthorne, Inglewood Lawndale, Lomita, Long Beach and Los Angeles, the County of Los Angeles and the Los Angeles County Flood Control District (collectively as the "Dominguez Channel Watershed Management Area (DCWMA) Group (DCWMA Group") and from oil and refinery companies, for the benefit of the DCWMA that are not part of the Authority. In addition, the assets are not derived from the Authority's provision of goods or services to DCWMA Group. The resources are accumulated to pay for expense incurred for the DCWMA Coordinated Integrated Monitoring Program ("CIMP").

C. Cash and Investments

The Authority's cash are considered to be cash on hand and demand deposits. Investments for the Authority are reported at fair value.

D. Receivables

All receivables are shown net of an allowance for uncollectible. For the year ended June 30, 2021, the Authority did not report any allowance for uncollectible receivables.

E. Prepaid Items and Deposits

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. As of June 30, 2021, the Authority has deposits and prepaid items, in the amounts of $13,362 and $19,770, respectively, for the security deposit of the Torrance office lease and prepaid maintenance and capital expenditures.

F. Unearned and Unavailable Revenue

In the government-wide and fund financial statements, unearned revenue is reported for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the government-wide financial statements are payments received in advance, prepaid charges for services, and advance grant funding.

In the governmental fund financial statements, unavailable revenue is reported when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The Authority reports unavailable revenue when an asset is reported in governmental fund financial statements but the revenue is not available to pay for current expenditures.

G. Deferred Outflows and Inflows of Resources

The statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods; therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods; therefore, are not recognized as revenue until that time.

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

H. Compensated Absences Payable

The Authority employees have vested interest in varying levels of vacation, sick leave and compensatory time based on their length of employment. It is the policy of the Authority to pay all accumulated vacation pay when an employee retires or terminates. The long-term amount is included as a liability in the governmental activities of the government-wide financial statements. A liability for these amounts is reported in General Fund only if they have matured, for example, as a result of employee resignations and retirements.

I. Net Position

In the government-wide financial statements, net position is classified as follows:

Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation. At June 30, 2021, the Authority did not report any investment in capital assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred outflows and inflows of resources related to those assets. At June 30, 2021, the Authority did not report any restricted net position.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of investment in capital assets or the restricted component of net position.

J. Fund Balance

In the governmental fund financial statements, governmental fund reports 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, 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. Financial Reserve Policy was established in September 2015 to fund the reserve goal of $400,000 with $37,000 contribution annually over the next four years. The This reserve balance at June 30, 2021 was $297,328.

The Authority's reserve policy allows the use of the reserve fund for known and unknown contingencies as follows:

- Economic uncertainties including downturns in the local, state or nation economy
- Local emergencies and natural disasters
- Loss of major revenue sources
- Unanticipated operating or capital expenditures
- Uninsured losses
- Future capital projects
- Vehicle and equipment replacement
- Capital asset and infrastructure repair and replacement

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

J. Fund Balance (Continued)

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.

K. Estimates

The preparation of basic financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Implementation of New GASB Pronouncements

During year ended June 30, 2021, the Authority implemented the GASB Statement No. 84 Fiduciary Activities. This statement establishes standards relating accounting and financial reporting for identifying and financial reporting of fiduciary activities. Those provisions are effective for reporting periods beginning after December 15, 2019, as amended by GASB Statement No. 95. See Note 1 for restatement of beginning fiduciary net position as result of implementation.

Note 2 – Cash and Investments

Cash and investments consisted as of June 30, 2021 are classified in the accompanying financial statement as follows:

Cash and investments:		
Statement of net position	$	1,931,992
Statement of Fiduciary Net Position		1,300,924
Total cash and investments	$	3,232,916

Deposits with financial institutions	$	380,892
Investments with Local Agency Investment Fund		2,852,024
Total cash and investments	$	3,232,916

The Authority maintains a cash and investment pool that is available for use for all projects. Each project's cash position in the pool is reported on the balance sheet as cash and investments. The Authority has adopted an investment policy which authorizes it to invest in various investments.

Deposits

The carrying amounts of the Authority's demand deposits were $380,892 at June 30, 2021. Bank balances at that date were $626,720 the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the Authority's name as discussed below.

Note 2 – Cash and Investments (Continued)

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 fair 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 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. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amortized cost based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF 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 investments in LAIF at June 30, 2021 included a portion of pool funds invested in Structured Notes and Asset-Backed Securities.

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

As of June 30, 2021, the Authority had $2,852,024 invested in LAIF, which had invested 2.31% of the pool investment funds in Structured Notes and Asset-Backed Securities.

Note 2 – Cash and Investments (Continued)

Credit Risk

The Authority's cash and cash equivalent consists of one demand deposit account and an investment in LAIF. As of June 30, 2021, the Authority's investments in LAIF 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, 2021, none of the Authority's deposits or investments were 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, 2021, the Authority has not invested more than 5% of its total investments in any one issuer. Investments in 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. As of June 30, 2021, the Authority's investment in LAIF in the amount of $2,852,024 matures less than three months.

Note 3 – Advances from City of Inglewood

On February 25, 2020, the Authority and the City of Inglewood entered into an Advance Funds Agreement where the City of Inglewood would advance funds needed to the Authority in the amount of, not to exceed, $2,310,000. The City of Inglewood agreed to advance the funds in 3 separate installments in the amount of $770,000 on or before February 29, 2020, May 31, 2020, and July 31, 2020 provided that the Authority has made full repayment of all previous advances. The Authority agreed to repay $770,000 on or before April 30, 2020, July 29, 2020, and September 1, 2020. These advances accrued interest at 2.25% per annum. The advances from the City of Inglewood was fully paid off during the year ended June 30, 2021.

Note 4 – Compensated Absences

Summary of changes in compensated absences for the governmental activities for the year ended June 30, 2021 is as follows:

	Balance at July 1, 2020 (As Reclassified)	Addition	Deletion	Balance at June 30, 2021	Classification: Due within One Year	Classification: Due in More Than One Year
Compensated absences	$ 57,191	$ 59,139	$ (17,392)	$ 98,938	$ 24,735	$ 74,203

Note 5 – Unearned Revenue

During the year ended June 30, 2020, the Authority received $1,200,000 from the State of California per Provision 16 of 2019 Budget Act Item 9210-102-0001 for the fiber optic network project. The Authority incurred eligible expenditures in the amount of $23,490 during the year ended June 30, 2021. As a result, the unearned revenue at June 30, 2021 was in the amount of $1,170,526.

Note 6 – Leases

On August 15, 2019, the Authority executed a new agreement for an office space in Torrance. The lease commencement date was December 1, 2019 for 63 months.

Future minimum payments under this operating lease are as follows:

Year Ending June 30,		
2022	$	131,783
2023		135,403
2024		139,808
2025		95,412
Total	$	502,406

Note 7 – Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is insured for worker's compensation and employer's liability insurance through insurance companies. The liability insurance policy limit is $1 million and $1 million per accident and per employee.

Note 8 – Deferred Compensation Plan

The Authority offers a deferred compensation plan (the "Plan"), created in accordance with the Internal Revenue Code Section 457, to its employees. Amounts deferred may not be paid to the employee during employment with the Authority, except for a catastrophic circumstance creating an undue financial hardship for the employee. The Plan is administered by an independent financial institution that has fiduciary responsibilities over the Plan assets. Consistent with the amended IRC Section 457, which took effect on January 1, 1997, the Authority no longer reports the Plan assets and liabilities on its financial statements.

Note 9 – Commitments and Contingencies

Grant Awards

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

Note 9 – Commitments and Contingencies (Continued)

General Lawsuits

The Authority is subject to other litigation arising in the normal course of business. In the opinion of the Authority Counsel, there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.

Note 10 – Restatement of Beginning Net Position/Fund Balance

The General Fund beginning fund balance was restated from the previously reported $1,111,352 to $1,168,543 to report compensated absences as long-term liabilities.

The beginning fiduciary net position was restated to $1,210,831 as result of implementation of GASB 84.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

South Bay Cities Council of Governments
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Intergovernmental	$ 392,500	$ 392,500	$ 392,499	$ -
Charges for services	57,800	57,800	57,800	-
Grants and contributions	6,039,375	3,986,958	3,146,268	(840,690)
Use of money and property	30,000	20,000	6,487	(13,513)
Total revenues	6,519,675	4,457,258	3,603,054	(854,203)
EXPENDITURES:				
Current:				
General government				
Salaries and benefits	922,014	866,797	823,323	43,474
Special projects	4,733,070	2,871,593	2,429,345	442,248
Supplies and services	776,357	705,414	307,755	397,659
Total expenditures	6,431,441	4,443,804	3,560,423	883,381
REVENUES OVER (UNDER EXPENDITURES)	88,234	13,454	42,631	29,178
NET CHANGE IN FUND BALANCE	$ 88,234	$ 13,454	42,631	$ 29,178
FUND BALANCE:				
Beginning of Year			1,168,543	
End of Year			$ 1,211,175	

Notes to Budgetary Comparison Schedule:
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 May of the prior fiscal year. The budget is adopted in June.

THE PUN GROUP
ACCOUNTANTS & ADVISORS

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 Auditors' Report

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

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, each major fund and aggregate remaining fund information of the South Bay Cities Council of Governments, California (the "Authority") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprises the Authority's basic financial statements, and have issued our report thereon dated January 27, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 opinion 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 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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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.

The Pun Group, LLP

Santa Ana, California
January 27, 2022