

South Bay Cities Council of Governments

Torrance, California

Independent Auditors' Report and Basic Financial Statements

For the Year Ended June 30, 2022

South Bay Cities Council of Governments
Financial Statements
For the Year Ended June 30, 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinions

We have audited the 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, 2022, 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.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

To the Board of Directors
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Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgeting Comparison Schedule be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("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 GAAS, 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 appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

To the Board of Directors
of the South Bay Cities Council of Governments
Torrance, California
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 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 PwC Group, LLP

Santa Ana, California
November 17, 2022

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BASIC FINANCIAL STATEMENTS

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South Bay Cities Council of Governments

Statement of Net Position

June 30, 2022

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 1,318,189
Accounts receivable	1,215,617
Interest receivable	5,354
Prepaid items	14,510
Deposits	13,362
Total current assets	2,567,032
Noncurrent assets:	
Lease assets, net of accumulated amortization	374,781
Total noncurrent assets	374,781
Total assets	2,941,813
LIABILITIES	
Current liabilities:	
Accounts payable	302,964
Accrued liabilities	58,747
Unearned revenue	1,265,093
Compensated absences, due within one year	17,195
Lease liabilities, due within one year	135,537
Total current liabilities	1,779,536
Noncurrent liabilities:	
Compensated absences, due in more than one year	51,585
Lease liabilities, due in more than one year	245,819
Total noncurrent liabilities	297,404
Total liabilities	2,076,940
NET POSITION	
Net investment in capital assets	(6,575)
Unrestricted	871,448
Total net position	\$ 864,873

South Bay Cities Council of Governments
Statement of Activities
For the Year Ended June 30, 2022

Functions/Programs	Program Revenues			Net (Expense) Revenue and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	
		Total		
Governmental Activities:				
General government	\$ 3,270,325	\$ 48,700	\$ 2,879,212	\$ (342,413)
Interest expense	4,255	-	-	(4,255)
Total governmental activities	\$ 3,274,580	\$ 48,700	\$ 2,879,212	(346,668)
Change in Net Position				(346,668)
Net Position:				
Beginning of the year				1,211,541
End of the year				<u>\$ 864,873</u>

South Bay Cities Council of Governments
Balance Sheet
Governmental Fund
June 30, 2022

	General Fund
ASSETS	
Current Assets:	
Cash and investments	\$ 1,318,189
Accounts receivable	1,215,617
Interest receivable	5,354
Prepaid items	14,510
Deposits	13,362
Total Assets	\$ 2,567,032
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 302,964
Accrued liabilities	58,747
Unearned revenue	1,265,093
Total Liabilities	1,626,804
Deferred Inflow of Resources:	
Unavailable revenues	727,869
Total deferred inflows of resources	727,869
Fund Balance:	
Nonspendable:	
Prepaid items	14,510
Deposits	13,362
Committed:	
Stabilization arrangements	405,000
Unassigned	(220,513)
Total fund balance	212,359
Total liabilities, deferred inflows of resources, and fund balance	\$ 2,567,032

South Bay Cities Council of Governments
Reconciliation of the Governmental Fund Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2022

Total Governmental Fund Balance	\$ 212,359
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.	727,869
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.	(68,780)
Capital assets are not reported as fund assets and are reported in the Statement of Net Position.	374,781
Lease payable 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.	<u>(381,356)</u>
Net position of governmental activities	<u><u>\$ 864,873</u></u>

South Bay Cities Council of Governments
Statement of Revenues, Expenditures, and Change in Fund Balance
Governmental Fund
For the Year Ended June 30, 2022

	General Fund
REVENUES:	
Intergovernmental	\$ 491,394
Charges for services	48,700
Grants and contributions	2,074,009
Investment loss	<u>(26,253)</u>
Total revenues	<u>2,587,850</u>
EXPENDITURES:	
Current:	
General government	3,139,525
Capital outlay	15,825
Debt service:	
Principal payment	128,130
Interest	<u>4,255</u>
Total expenditures	<u>3,287,735</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(699,885)
OTHER FINANCING SOURCES:	
Issuance of lease liabilities	<u>15,825</u>
NET CHANGE IN FUND BALANCE	(684,060)
FUND BALANCE:	
Beginning of year, as restated (Note 10)	<u>896,419</u>
End of year	<u>\$ 212,359</u>

South Bay Cities Council of Governments
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Change
in Fund Balance to the Government-Wide Statement of Activities
For the Year Ended June 30, 2022

Net change in fund balance of the governmental fund \$ (684,060)

Governmental fund report capital outlays as expenditures. However, in the Statement of Activities, the cost of those lease assets is allocated over the estimated useful lives as amortization expense. This is the amount by which capital expenditures exceeded amortization in the current period:

Capital outlay expenditures	\$ 15,825
Amortization expense	<u>(134,705)</u>
	(118,880)

Revenues that are measurable but not available and are reported as unavailable revenue under the modified accrual basis of accounting in the governmental fund. 313,809

Long-term liabilities were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, long-term liabilities were not reported as expenditures in the governmental fund.

Issuance of lease liabilities	(15,825)
Lease principal payment	128,130
Change in compensated absences	<u>30,158</u>
	<u>142,463</u>

Change in net position of governmental activities \$ (346,668)

South Bay Cities Council of Governments
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2022

	Dominguez Channel Custodial Fund
ASSETS	
Current assets:	
Cash and investments	\$ 1,602,078
Accounts receivable	<u>216,310</u>
Total assets	<u>1,818,388</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>62,500</u>
Total liabilities	<u>62,500</u>
NET POSITION	
Restricted for other governments	<u>1,755,888</u>
Total net position	<u>\$ 1,755,888</u>

South Bay Cities Council of Governments
Statement of Change in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2022

	Dominguez Channel Custodial Fund
ADDITION:	
Receipt from other governments	\$ 966,052
Total addition	<u>966,052</u>
DEDUCTION:	
Disbursement for Dominguez Channel expenses	<u>315,402</u>
Total deduction	<u>315,402</u>
Change in net position	650,650
NET POSITION:	
Beginning of year	<u>1,105,238</u>
End of year	<u>\$ 1,755,888</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS

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South Bay Cities Council of Governments
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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.

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.

South Bay Cities Council of Governments
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

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

B. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

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 Change in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. 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 Change in Fiduciary Net Position. The Authority’s fiduciary fund represent a custodial fund. 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.

The Authority reports the following fiduciary fund:

- **Custodial Fund** – To account 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 expenses incurred for the DCWMA Coordinated Integrated Monitoring Program (“CIMP”).

South Bay Cities Council of Governments
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

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

C. Cash and Investments

The Authority's cash is considered to be cash on hand and demand deposits. Investments for the Authority are reported at amortized cost, which approximates fair value.

D. Receivables

All receivables are shown net of an allowance for uncollectible. For the year ended June 30, 2022, 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, 2022, the Authority has deposits and prepaid items, in the amounts of \$13,362 and \$14,510, 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. Lease Assets

Lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 applies to all contracts meeting this definition of a lease, unless specifically excluded.

The Authority has a policy to recognize a lease liability and a right-to-use lease asset (lease asset) in the government-wide financial statements. Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the State has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

H. 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.

South Bay Cities Council of Governments
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

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

H. Deferred Outflows and Inflows of Resources (Continued)

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.

I. 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.

J. Lease Liabilities

The Authority recognizes lease liabilities with an initial, individual value of \$5,000 or more with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the State generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

South Bay Cities Council of Governments
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

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

K. Net Position

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

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and reduce by related debt.

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, 2022, 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 net investment in capital assets or the restricted component of net position.

L. 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, 2022 was \$405,000.

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

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.

South Bay Cities Council of Governments
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

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

M. 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.

N. Implementation of New GASB Pronouncements

In June 2017, GASB issued Statement No. 87, Leases (GASB Statement No. 87), to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The effective date of GASB Statement No. 87 (as amended by GASB Statement No. 95) is for fiscal years beginning after June 15, 2021. Implementation of this Statement resulted in restatement of beginning balance of lease assets (Note 3) and lease liabilities (Note 5) at July 1, 2021.

Note 2 – Cash and Investments

Cash and investments consisted as of June 30, 2022 are classified in the accompanying financial statement as follows:

Cash and investments:		
Statement of net position	\$	1,318,189
Statement of Fiduciary Net Position		<u>1,602,078</u>
Total cash and investments	\$	<u>2,920,267</u>
Deposits with financial institutions		97,569
Investments with Local Agency Investment Fund		<u>2,822,698</u>
Total cash and investments	\$	<u>2,920,267</u>

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 \$97,569 at June 30, 2022. Bank balances at that date were \$374,774 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.

South Bay Cities Council of Governments
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

Note 2 – Cash and Investments (Continued)

Deposits (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, 2022 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, 2022, the Authority had \$2,822,698 invested in LAIF, which had invested 1.88% of the pool investment funds in Structured Notes and Asset-Backed Securities.

South Bay Cities Council of Governments
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

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, 2022, 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, 2022, 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, 2022, 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, 2022, the Authority's investment in LAIF in the amount of \$2,822,698 matures less than three months.

Note 3 – Lease Assets

Summary of changes in lease assets for the governmental activities for the year ended June 30, 2022 is as follows:

	Balance at July 1, 2021 (As Restated)	Addition	Deletion	Balance at June 30, 2022
Lease assets:				
Building and improvements	\$ 493,661	\$ -	\$ -	\$ 493,661
Equipment	-	15,825	-	15,825
Total lease assets	493,661	15,825	-	509,486
Accumulated amortization:				
Building and improvements	-	(134,635)	-	(134,635)
Equipment	-	(70)	-	(70)
Total lease assets	-	(134,705)	-	(134,705)
Total lease assets, net	\$ 493,661	\$ (118,880)	\$ -	\$ 374,781

Amortization expense in the amount of \$134,705 was charged to general government for the year ended June 30, 2022.

South Bay Cities Council of Governments
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

Note 4 – 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 \$80,171 as of June 30, 2022. As a result, the unearned revenue at June 30, 2022 was in the amount of \$1,119,829.

In addition, the Authority received \$145,264 from the members for the fiscal year 2022-23 member dues and assessment during the year ended June 30, 2022 and reported the amount as unearned revenue.

Note 5 – Compensated Absences

Summary of changes in compensated absences for the governmental activities for the year ended June 30, 2022 is as follows:

	Balance at July 1, 2021				Classification	
		Addition	Deletion	Balance at June 30, 2022	Due within One Year	Due in More Than One Year
Compensated absences	\$ 98,938	\$ 57,185	\$ (87,343)	\$ 68,780	\$ 17,195	\$ 51,585

Note 6 – Lease Liabilities

Summary of changes in lease liabilities for the governmental activities for the year ended June 30, 2022 is as follows:

	Balance July 1, 2021 (As restated)				Classification	
		Additions	Deletions	Balance June 30, 2022	Due within One Year	Due in More Than One Year
Lease liabilities	\$ 493,661	\$ 15,825	\$ (128,130)	\$ 381,356	\$ 135,537	\$ 245,819

The Authority has entered into leases for building space and equipment use. The terms of the agreements range from 60 to 63 months. The calculated interest rate used ranged from 1% to 5%.

Principal and interest payments to maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2023	\$ 135,537	\$ 3,661	\$ 139,198
2024	141,101	2,164	143,265
2025	98,209	694	98,903
2026	3,319	247	3,566
2027	3,190	78	3,268
Total	\$ 381,356	\$ 6,844	\$ 388,200

South Bay Cities Council of Governments
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2022

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.

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 – Prior Period Adjustment

General Fund beginning fund balance was restated to report deferred inflows of resources for reimbursement not received within the unavailability period of 60 days.

<u>General Fund</u>		
	<u>Fund Balance</u>	<u>Unavailable Revenue</u>
Balance previously reported	\$ 1,211,175	\$ 99,304
Unavailable revenue	(314,756)	314,756
Balance as restated	<u>\$ 896,419</u>	<u>\$ 414,060</u>

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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South Bay Cities Council of Governments
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Intergovernmental	\$ 392,500	\$ 392,500	\$ 491,394	\$ 98,894
Charges for services	57,800	57,800	48,700	(9,100)
Grants and contributions	3,897,708	3,897,708	2,074,009	(1,823,699)
Investment income (loss)	12,000	12,000	(26,253)	(38,253)
Total revenues	4,360,008	4,360,008	2,587,850	(1,772,158)
EXPENDITURES:				
Current:				
General government:				
Salaries and benefits	1,040,621	1,040,621	1,043,823	(3,202)
Special projects	2,634,289	2,634,289	1,447,636	1,186,653
Supplies and services	917,156	917,156	648,066	269,090
Capital outlay	-	-	15,825	(15,825)
Debt services:				
Lease principal payment	-	-	128,130	(128,130)
Interest payment	-	-	4,255	(4,255)
Total expenditures	4,592,066	4,592,066	3,287,735	1,304,331
REVENUES OVER (UNDER) EXPENDITURES	(232,058)	(232,058)	(699,885)	(467,827)
OTHER FINANCING SOURCES:				
Issuance of lease	-	-	15,825	15,825
NET CHANGE IN FUND BALANCE	\$ (232,058)	\$ (232,058)	\$ (684,060)	\$ (452,002)
FUND BALANCE:				
Beginning of Year			896,419	
End of Year			\$ 212,359	

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.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent 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 (“*Government Auditing Standards*”), 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, 2022, and the related notes to the financial statements, which collectively comprises the Authority’s basic financial statements, and have issued our report thereon dated November 17, 2022.

Report on 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 or significant deficiencies may exist that were not identified.

To the Board of Directors
of the South Bay Cities Council of Governments
Torrance, California
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Report on Compliance and Other Matters

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The PricewaterhouseCoopers LLP

Santa Ana, California
November 17, 2022