

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

JUNE 30, 2004

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

JUNE 30, 2004

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the South Bay Cities Council of Governments Joint Powers Authority (Authority) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in the Notes to Financial Statements, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2004.

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, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lance, Soll & Lunghard, LLP

August 11, 2004



SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

Exhibit A

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2004**

	General Fund	Adjustments	Statement of Net Assets
Assets:			
Cash and investments	\$ 240,347	\$ -	\$ 240,347
Accounts receivable	181,720	-	181,720
Interest receivable	509	-	509
Prepaid expenses	1,875	-	1,875
Total Assets	\$ 424,451	\$ -	\$ 424,451
Liabilities:			
Deferred revenue	\$ 189,167	\$ -	\$ 189,167
Accounts payable	54,871	-	54,871
Total Liabilities	244,038	-	244,038
Fund Balances and Net Assets:			
Fund balances:			
Unreserved	180,413	(180,413)	-
Total Fund Balances	180,413	(180,413)	-
Total Liabilities and Fund Balances	\$ 424,451		
Net assets:			
Unrestricted		180,413	180,413
Total Net Assets		\$ 180,413	\$ 180,413

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

Exhibit B

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
JUNE 30, 2004**

	General Fund	Adjustments	Statement of Activities
Revenues:			
Southern California Association of Governments	\$ 78,745	\$ -	\$ 78,745
Membership dues	199,998	-	199,998
LAIF interest	2,816	-	2,816
Grant revenue	208,502	-	208,502
Miscellaneous	36,155	-	36,155
Total Revenues	526,216	-	526,216
Expenditures:			
Contractual services	170,034	-	170,034
Special projects	238,835	-	238,835
Supplies and services	28,855	-	28,855
Total Expenditures	437,724	-	437,724
Excess (Deficiency) of Revenues Over (Under) Expenditures	88,492	-	88,492
Fund Balance/Net Assets:			
Beginning of year	91,921	-	91,921
End of year	\$ 180,413	\$ -	\$ 180,413

See Notes to Financial Statements

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

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

Reporting Entity:

Primary Government:

The South Bay Cities Council of Governments Joint Powers Authority

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

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

The Authority has the following members:

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

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

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

b. Government-Wide and Fund Financial Statements

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

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

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

d. Assets, Liabilities and Net Assets or Equity

1. Investments

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

2. Receivables and Payables

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

3. Prepaid Items

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

e. Deferred Revenue

Revenues totaling \$70,144, which were received for advance payment of membership dues and project reimbursements, have been recorded as deferred revenue until such time as those revenues meet the recognition criteria.

In addition, \$119,023 has been deferred for a cash advance from SCE to be held until October 2005 related to the SCG/SCE grant.

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

a. Budgetary Data

General Budget Policies

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

III. DETAIL NOTES ON ACCOUNT GROUPS

Note 3: Cash and Investments

As of June 30, 2004, cash and investments were reported in the accompanying financial statements as follows:

Total Cash and Investments	<u>\$ 240,347</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.

During the current fiscal year, the Authority elected an early implementation of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment and deposit risks; accordingly, the note disclosure on cash and investments has been revised to conform to the provisions of GASB Statement No. 40.

Deposits

At June 30, 2004, the carrying amount of the Authority's deposits was \$114,047, and the bank balance was \$114,047.

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 and, therefore, their credit quality is not disclosed. As of June 30, 2004, the Authority's investments in external investment pools and money market mutual funds are unrated.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

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

As of June 30, 2004, none of the Authority's deposits or investments were exposed to custodial credit risk.

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

Note 3: Cash and Investments (Continued)

Concentration of Credit Risk

The Authority’s investment policy imposes restrictions for certain types of investments with any one issuer. The Authority is allowed to invest in a variety of investments, but currently only invests in the California Local Agency Investment Fund. With respect to concentration risk, as of June 30, 2004, the Authority has not adopted a policy limiting the percentage of the Authority’s portfolio invested in any one investment. Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

Interest Rate Risk

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

As of June 30, 2004, the Authority had the following investments and original maturities:

	<u>Investment Maturities (in Years)</u>		<u>Fair Value</u>
	<u>Less Than 1</u>	<u>1 - 5</u>	
California Local Agency Investment Fund	<u>\$ 126,300</u>	<u>\$ -</u>	<u>\$ 126,300</u>
Total Investments	<u><u>\$ 126,300</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 126,300</u></u>