

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

FINANCIAL STATEMENTS

June 30, 2019

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
FINANCIAL STATEMENTS
June 30, 2019**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report	1
Basic Financial Statements:	
Government Wide:	
Statement of Net Position	3
Statement of Activities.....	4
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	5
Reconciliation of Balance Sheet of the Governmental Fund to the Statement of Net Position	6
Statement of Revenues, Expenditures, and Changes in Fund Balance	7
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities.....	8
Statement of Fiduciary Assets and Liabilities – Agency Fund.....	9
Notes to Basic Financial Statements.....	10
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	17
Supplementary Information:	
Statement of Change in Fiduciary Assets and Liabilities – Agency Fund	18

BASIC FINANCIAL STATEMENTS



MOSS, LEVY & HARTZHEIM LLP

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
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 the fiduciary fund information of the South Bay Cities Council of Governments ("the Authority") as of and for the fiscal year ended June 30, 2019, and the related notes to the 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.

Auditor's 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 opinions.

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 fiduciary fund information of the Authority, as of June 30, 2019, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Authority.

The supplementary information section, as listed in the table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information section, as listed in the table of contents is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
November 21, 2019

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
STATEMENT OF NET POSITION
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 504,834
Accounts receivable	558,459
Interest receivable	8,026
Prepaid items	102,550
Deposits	<u>10,739</u>
Total Assets	<u>1,184,608</u>
 Liabilities	
Accounts payable	111,145
Accrued liabilities	<u>66,275</u>
Total Liabilities	<u>177,420</u>
 Net Position	
Unrestricted	<u>1,007,188</u>
Total Net Position	<u><u>\$ 1,007,188</u></u>

See notes to financial statements

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019**

	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position Governmental Activities
Functions/programs		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 1,885,998	\$ 465,459	\$ 1,421,469	\$ 930
Total Governmental activities	\$ 1,885,998	\$ 465,459	\$ 1,421,469	930
		General revenues:		
			Interest	29,610
			Total general revenues	29,610
			Change in net position	30,540
			Net position, beginning of fiscal year	995,449
			Prior period adjustment	(18,801)
			Fund balance, beginning of fiscal year, restated	976,648
			Net position, end of fiscal year	\$ 1,007,188

See notes to financial statements

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2019**

	<u>General Fund</u>
Assets	
Cash and investments	\$ 504,834
Accounts receivable	558,459
Interest receivable	8,026
Prepaid items	102,550
Deposits	10,739
Total Assets	\$ 1,184,608
 Liabilities and Fund Balance	
Accounts payable	\$ 111,145
Accrued liabilities	66,275
Total Liabilities	177,420
 Fund balance:	
Nonspendable:	
Prepaid items	102,550
Deposits	10,739
Committed:	
Stabilization arrangements	137,149
Unassigned	756,750
Total Fund Balance	1,007,188
Total Liabilities and Fund Balance	\$ 1,184,608

See notes to financial statements

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
RECONCILIATION OF BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
June 30, 2019**

Fund balance of the governmental fund	<u>\$ 1,007,188</u>
Net position of governmental activities	<u><u>\$ 1,007,188</u></u>

See notes to financial statements

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2019**

	<u>General Fund</u>
Revenues:	
Intergovernmental from members	\$ 372,501
Charges for services	92,958
Grant revenue and contributions	1,421,469
Investment earnings	<u>29,610</u>
Total Revenues	<u>1,916,538</u>
Expenditures:	
Current:	
General government	<u>1,885,998</u>
Total Expenditures	<u>1,885,998</u>
Net change in fund balance	<u>30,540</u>
Fund balance, beginning of fiscal year	995,449
Prior period adjustment	<u>(18,801)</u>
Fund balance, beginning of fiscal year, restated	<u>976,648</u>
Fund balance, end of fiscal year	<u><u>\$ 1,007,188</u></u>

See notes to financial statements

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019**

Net change in fund balance of the governmental fund	<u>\$ 30,540</u>
Change in net position of governmental activities	<u><u>\$ 30,540</u></u>

See notes to financial statements

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2019

	Dominguez Channel (CIMP)
Assets	
Cash and investments	\$ 1,321,418
Receivables	39,670
	<u>\$ 1,361,088</u>
Liabilities	
Accounts payable	\$ 431,459
Due to participants	929,629
	<u>\$ 1,361,088</u>

See notes to financial statements

NOTES TO BASIC FINANCIAL STATEMENTS

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The South Bay Cities Council of Governments (“the Authority”) 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 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 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
- County of Los Angeles —
Sanitation Districts 2 & 4
- El Segundo
- Gardena
- Hawthorne
- Hermosa Beach
- Inglewood
- Lawndale
- Lomita
- Los Angeles
- Manhattan Beach
- Palos Verdes Estates
- Rancho Palos Verdes
- Redondo Beach
- Rolling Hills
- Rolling Hills Estates
- Torrance

b. Government-Wide and Fund Financial Statements

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

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

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

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

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

Agency Fund

This fund is used to account for funds in which the Authority is acting as an agent for another agency. The agency fund is reported using the accrual basis of accounting, but has no measurement focus as only Assets and Liabilities are reported.

d. Assets, Liabilities, and Net Position or Equity

1. Investments

Investments for the Authority 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. For the fiscal year ended June 30, 2019, the Authority did not make any allowance for uncollectible receivables.

3. Prepaid/Deposit 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. As of June 30, 2019, the Authority has prepaid deposits and prepaid items, in the amount of \$10,739 and \$102,550, respectively, for the security deposit of the Torrance Facility lease and prepaid maintenance and capital expenditures.

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

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

4. Fund Equity

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

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

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

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

Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

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.

e. Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

f. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2: Stewardship, Compliance, and Accountability

Budgetary Data

General Budget Policies

The Authority adopts a budget as a management tool. It is prepared in accordance with accounting principles generally accepted in the United States of America. The annual budget is prepared by the administrator and is presented to the Authority Board of Directors by May of the prior fiscal year. The budget is adopted in June.

Note 3: Cash and Investments

Cash and investments as of June 30, 2019 are classified in the accompanying financial statements as follows:

Cash and investments - statement of net position	\$ 504,834
Cash and investments - statement of fiduciary assets and liabilities	1,321,418
Total cash and investments	<u>\$ 1,826,252</u>

Cash and investments as of June 30, 2019 consist of the following:

Deposits with financial institutions	\$ 188,081
Investments	316,753
Deposits with financial institutions, statement of fiduciary assets and liabilities	431,459
Investments, statement of fiduciary assets and liabilities	889,959
Total cash and investments	<u>\$ 1,826,252</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 combined balance sheet as cash and investments. The Authority has adopted an investment policy which authorizes it to invest in various investments.

The Authority categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority had investments in the Local Agency Investment Fund (California State Pool); however, this external pool is not required to be measured under Level 1, 2 or 3.

Deposits

The California Government Code requires California banks and savings and loan associations to secure a government entity's deposits by pledging government securities with a 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

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 3: Cash and Investments (Continued)

Deposits (Continued)

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. LAIF is overseen by the Local Agency Investment Advisory Board which consists of five members, in accordance with State statute. The State Treasurer’s Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

GASB Statement No. 31

The Authority adopted GASB Statement No. 31, *Accounting and Financial Reporting for certain investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the Authority reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 3: Cash and Investments (Continued)

Credit Risk

The Authority's cash consists of one demand deposit account and an investment in the State Treasury Investment Pool. Investments in U.S. government securities are not considered to have credit risk; therefore, their credit quality is not disclosed. As of June 30, 2019, the Authority's investments in external investment pools 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, 2019, 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, 2019, in accordance with GASB 40 requirements, the Authority has not invested more than 5% of its total investments in any one issuer. Investments guaranteed by the U.S. government, and investments in mutual funds and external investment pools are excluded from this requirement.

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, 2019, the Authority had the following investments and original maturities:

	Remaining Investment Maturities	Fair Value
	6 months or less	
Local Agency		
Investment Fund (State Pool)	\$ 1,206,712	\$ 1,206,712
Total Investments	\$ 1,206,712	\$ 1,206,712

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 4: Leases

On April 23, 2015, the Authority extended the sublease agreement at the Torrance facility to November 30, 2019. Future minimum payments under this non-cancelable operating lease are as follows:

Fiscal Year Ending, June 30,	Total
2020	\$ 63,890
Total	<u>\$ 63,890</u>

Note 5: 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 6: Subsequent Events

On August 15, 2019, the Authority entered a new lease agreement at the Park del Amo, Torrance through February 2025. Future minimum base rent payments are \$704,034.

Note 7: Restatements

The following summarizes the effect of the prior period adjustment to beginning net position/fund balances as of July 1, 2018:

	Governmental Activities	General Fund
Net Position/Fund Balance at July 1, 2018	\$ 995,449	\$ 995,449
Overstatement of accounts receivable	<u>(18,801)</u>	<u>(18,801)</u>
Net Position/Fund Balance at July 1, 2018, as Restated	<u>\$ 976,648</u>	<u>\$ 976,648</u>

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2019**

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Membership dues and assessments	\$ 372,500	\$ 372,500	\$ 372,501	\$ 1
Charges for services	56,150	56,150	92,958	36,808
Investment earnings	5,000	21,823	29,610	7,787
Grant revenue	1,510,461	1,595,422	1,420,183	(175,239)
Miscellaneous	300	678	1,286	608
 Total Revenues	 1,944,411	 2,046,573	 1,916,538	 (130,035)
Expenditures:				
Current:				
General government:				
Salaries and benefits	760,817	707,280	671,721	35,559
Special projects	887,227	982,724	865,337	117,387
Supplies and services	335,479	348,229	348,940	(711)
 Total Expenditures	 1,983,523	 2,038,233	 1,885,998	 152,235
 Excess (Deficiency) of Revenues over Expenditures	 (39,112)	 8,340	 30,540	 22,200
 Fund balance, beginning of fiscal year	 995,449	 995,449	 995,449	
Prior period adjustment			(18,801)	(18,801)
Fund balance, beginning of fiscal year, restated	995,449	995,449	976,648	(18,801)
 Fund balance, end of fiscal year	 \$ 956,337	 \$ 1,003,789	 \$ 1,007,188	 \$ 3,399

**SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
STATEMENT OF FIDUCIARY CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>
<u>Dominguez Channel (CIMP)</u>				
Assets				
Cash and investments	\$ 1,153,595	\$ 979,599	\$ (811,776)	\$ 1,321,418
Receivables		39,670		39,670
Total Assets	<u>\$ 1,153,595</u>	<u>\$ 1,019,269</u>	<u>\$ (811,776)</u>	<u>\$ 1,361,088</u>
Liabilities				
Accounts payable	\$ 250,000	\$ 993,235	\$ (811,776)	\$ 431,459
Due to participants	903,595	26,034		929,629
Total Liabilities	<u>\$ 1,153,595</u>	<u>\$ 1,019,269</u>	<u>\$ (811,776)</u>	<u>\$ 1,361,088</u>

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS

**MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER**

June 30, 2019

SOUTH BAY CITIES COUNCIL OF GOVERNMENTS
June 30, 2019

TABLE OF CONTENTS

Required Communication under SAS 114.....	1
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in According with <i>Government Auditing Standards</i>	3
Current Year Recommendation	
Significant Deficiency:	
2019-01 Lack of Segregation of Duties	5
Status of Prior Year Recommendations.....	6



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

We have audited the financial statements of the South Bay Cities Council of Governments (“the Authority”) for the fiscal year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 13, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Authority during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were grant revenue accruals which are based mainly on expenditures incurred before year end and received grant proceeds after year end. We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 21, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

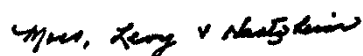
Other Matters

We applied certain limited procedures to schedule of revenues, expenditures, and changes in fund balance – budget and actual – general fund, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Board of Directors of the Authority and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA
November 21, 2019



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
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**INDEPENDENT AUDITOR'S 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***

To the Board of Directors
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 and the major fund of the South Bay Cities Council of Governments (“the Authority”), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated November 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) to determine the 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 the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We consider the following deficiency presented in the current year recommendation as Finding 2019-01 to be a significant deficiency.

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 determination of financial statement amounts. 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*.

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying current fiscal year recommendations section. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Very truly yours,



Moss, Levy & Hartzheim, LLP
Culver City, California
November 21, 2019

CURRENT YEAR RECOMMENDATION

Significant Deficiency

2019-01 Finding – Lack of Segregation of Duties

Due to the small size of the Authority, there is a lack of segregation of duties as there is only one accountant, who is responsible for processing cash receipts and disbursements, and preparing journal entries.

Effect:

The risk of inadequate safeguarding of assets increases when lack of segregation of duties exists.

Recommendation:

We recommend that books and records be reviewed, at a minimum on a quarterly basis and that cash transactions be reviewed within a reasonable time after they occur. In addition, all journal entries need to be reviewed and approved by the proper personnel.

Management's Response:

The Authority's accountant continues to provide details of monthly check disbursements to the Steering Committee for approval. All invoices for goods and services will be approved for payment by either the Executive Director or the Deputy Executive Director before processing. The SBCCOG's current practice for cash receipts: Accountant receives checks (cash) from clients, reviews for accuracy & processing; checks are then given to assistant to create deposit, which is given to second assistant for deposit in bank. SBCCOG staff presents a major budget review to the Board annually, and a mid-year budget review at mid-year.

In addition to the above, the agency has contracted with a consultant to provide guidance regarding all accounting functions. The consultant reviews financial statements, cash flow, accounts payable, accounts receivable and bank reconciliations. Additionally, the consultant coordinates with accountant in the preparation and presentation of the annual budget.

STATUS OF PRIOR YEAR RECOMMENDATION

Significant Deficiency

2018-01 Finding – Lack of Segregation of Duties

Due to the small size of the Authority, there is a lack of segregation of duties as there is only one accountant, who is responsible for processing cash receipts and disbursements, and preparing journal entries.

Effect:

The risk of inadequate safeguarding of assets increases when lack of segregation of duties exists.

Recommendation:

We recommend that books and records be reviewed, at a minimum on a quarterly basis and that cash transactions be reviewed within a reasonable time after they occur. In addition, all journal entries need to be reviewed and approved by the proper personnel.

Current Status:

Not implemented. See finding 2019-01.