



SOUTH BAY WORKFORCE INVESTMENT BOARD, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2020

**SOUTH BAY WORKFORCE INVESTMENT BOARD, INC.
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>PAGE(S)</u>
FINANCIAL STATEMENTS	
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF CASH FLOWS	5
STATEMENT OF FUNCTIONAL EXPENSES	6
NOTES TO FINANCIAL STATEMENTS	7-18
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	19-21
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	22
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN	23
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	
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	24-25
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE	26-27



Certified Public Accountants

Zuehls, Legaspi & Company

350 So. Figueroa Street, Suite 437
Los Angeles, California 90071
Tel: 213-972-4033 Fax: 213-972-4034

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
South Bay Workforce Investment Board, Inc.
Hawthorne, California

Report on Financial Statements

We have audited the accompanying statement of financial position of South Bay Workforce Investment Board, Inc. (SBWIB, Inc.), a nonprofit organization, as of June 30, 2020 and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. 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 SBWIB, Inc.'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 SBWIB, Inc.'s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the SBWIB, Inc. as of June 30, 2020 and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 information 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 March 5, 2021 on our consideration of the SBWIB, Inc.'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 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 SBWIB, Inc.'s internal control over financial reporting and compliance.

Zuelke, Legaspi & Co.

Los Angeles, California
March 5, 2021

SOUTH BAY WORKFORCE INVESTMENT BOARD, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Cash and cash equivalents	\$	1,846,051
Grants receivable		4,695,631
Investments		1,614,605
Prepaid expenses		131,940
Deposits		64,067
Inventory		28,565
		8,380,859
TOTAL ASSETS	\$	8,380,859

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts and credit cards payable	\$	1,565,406
Compensated absences		489,887
Payroll liabilities		588,958
Deferred revenue		13,780
		2,658,031
TOTAL LIABILITIES		2,658,031

COMMITMENTS

NET ASSETS

Without donor restrictions		5,722,828
With donor restrictions		-
		5,722,828
TOTAL NET ASSETS		5,722,828

TOTAL LIABILITIES AND NET ASSETS	\$	8,380,859
---	-----------	------------------

The accompanying notes are an integral part of these financial statements.

SOUTH BAY WORKFORCE INVESTMENT BOARD, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
REVENUE			
Grants - government	\$ 46,777,612	\$ -	\$ 46,777,612
Grants - others	601,350	-	601,350
Contributions	98,170	-	98,170
Rental income	313,388	-	313,388
Interest and dividends	69,440	-	69,440
Realized loss on investments	(48,751)	-	(48,751)
Other income	38,820	-	38,820
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	47,850,029	-	47,850,029
EXPENSES			
Program services	45,338,651	-	45,338,651
Management and general	2,664,068	-	2,664,068
Fundraising	64,450	-	64,450
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	48,067,169	-	48,067,169
DECREASE IN NET ASSETS	(217,140)	-	(217,140)
NET ASSETS, BEGINNING OF YEAR	5,939,968	-	5,939,968
	<hr/>	<hr/>	<hr/>
NET ASSETS, END OF YEAR	<u>\$ 5,722,828</u>	<u>\$ -</u>	<u>\$ 5,722,828</u>

The accompanying notes are an integral part of these financial statements.

**SOUTH BAY WORKFORCE INVESTMENT BOARD, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (217,140)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:	
Net realized loss on investments	48,751
Change in assets and liabilities:	
(Increase) decrease in grants receivable	698,249
(Increase) decrease in prepaid expenses	39,618
(Increase) in deposits	(2,375)
(Increase) decrease in inventory	(7,984)
Increase (decrease) in accounts and credit cards payable	(384,190)
Increase (decrease) in compensated absences	89,385
Increase (decrease) in payroll liabilities	(202,216)
Decrease in deferred revenue	(43,271)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,827

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	170,000
Purchase of investments	(239,439)
NET CASH USED IN INVESTING ACTIVITIES	(69,439)

NET DECREASE IN CASH (50,612)

CASH AT BEGINNING OF YEAR 1,896,663

CASH AT END OF YEAR **\$ 1,846,051**

The accompanying notes are an integral part of these financial statements.

**SOUTH BAY WORKFORCE INVESTMENT BOARD, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUND- RAISING	TOTAL
Advertising	\$ 5,059	\$ 566	\$ -	\$ 5,625
Benefits	626,374	222,290	2,064	850,728
Contract services	3,197,632	10,251	75	3,207,958
Donations	-	-	3,785	3,785
Dues and subscriptions	10,270	18,619	300	29,189
Insurance	1,602,983	475	-	1,603,458
Mileage and parking	61,606	1,333	15	62,954
Occupancy	977,080	344,592	-	1,321,672
Office expense	665,357	161,375	15,412	842,144
Participant wages and related expenses	29,129,086	-	-	29,129,086
Participant program training	2,772,679	-	-	2,772,679
Postage	43,484	5,219	141	48,844
Professional fees	13,402	128,624	-	142,026
Salaries and related expenses	6,137,534	1,757,638	11,407	7,906,579
Supportive services	61,654	-	-	61,654
Travel	34,451	13,086	31,251	78,788
Total expenses before depreciation	45,338,651	2,664,068	64,450	48,067,169
Depreciation	-	-	-	-
TOTAL	\$ 45,338,651	\$ 2,664,068	\$ 64,450	\$ 48,067,169

The accompanying notes are an integral part of these financial statements.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1: NATURE OF ORGANIZATION

The South Bay Workforce Investment Board, Inc. (SBWIB, Inc.) was created on March 2, 2000, as an IRC section 501(c)(3) public benefit corporation under the laws of the State of California primarily to design, develop, oversee and facilitate the implementation of a comprehensive, and well-coordinated workforce investment system in the Los Angeles region that responds rapidly and effectively to the needs of business, industry and individuals.

Furthermore, the corporation staffs and coordinates, on an ongoing basis, a strategic workforce investment system in order to:

- benefit the constituents of the Los Angeles region;
- develop, implement and maintain a training provider quality control process for use by employers or individuals seeking to buy training services;
- act as the fiscal agent and administrative entity for local, state and federal workforce development funds;
- fulfill all roles of a fiscal agent and administrative entity as outlined in the Workforce Innovation and Opportunity Act of 2014, and other related laws, as appropriate;
- develop, administer and/or coordinate other workforce investment activities.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

SBWIB, Inc. prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities, and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States. The significant accounting and reporting policies used by SBWIB, Inc. are described subsequently to enhance usefulness and understandability of the financial statements.

b. Classification and Reporting of Funds

ASU 2016-14, Not-for-Profit Entities (Topic 958) requires net assets and changes in net assets to be presented as follows: net assets with donor restrictions and net assets without restrictions, rather than the three classes: unrestricted, temporarily restricted and permanently restricted. ASC 958-205-45 requires the entity to report all of its expenses in the assets without donor restrictions (unrestricted), regardless of the source of the funds for the expenditures. A transfer of expenses from the assets without donor restrictions (unrestricted) to the assets with donor restrictions (restricted) will be reported, if applicable, to match the restricted revenue with the restricted expenses. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Classification and Reporting of Funds (continued)

Net Assets With Donor Restrictions – Net assets subject to donor or grantor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

As of June 30, 2020, there were no net assets with donor restrictions.

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires SBWIB, Inc.'s 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 revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

d. Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of 90 days or less, provided these financial instruments are not subject to SBWIB, Inc.'s investment policy. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

e. Investments

SBWIB, Inc. records investment purchases at cost, or if donated, at fair value on the date of donation. The fair value of these assets is estimated based upon publicly quoted market prices for these or similar investments. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

f. Inventory

Inventories consist of training workbooks that are stated at cost, determined by the first-in, first-out method and unused prepaid bus passes/tokens for program expenses. SBWIB, Inc. has provided no allowance for inventory obsolescence.

g. Property and Equipment and Depreciation

Property and equipment are carried at cost or, if donated, at estimated fair value on the date of the gift. SBWIB, Inc. capitalizes property and equipment with a cost of over \$5,000 and estimated life of 3 years or more. Depreciation is computed using the straight-line method over useful lives of three to ten years for equipment and furniture. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the related lease term.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Property and Equipment and Depreciation (continued)

SBWIB, Inc. capitalizes expenditures or betterments that materially increase asset lives and charge ordinary repairs and maintenance to operations as incurred. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in operations.

h. Fund Accounting

To ensure the observance of limitations and designations placed on the use of resources by SBWIB, Inc., various accounts are maintained in accordance with the principles of fund accounting. Under the fund accounting concept, separate funds are established as needed to achieve a proper segregation and fair presentation of those resources available for use at the discretion of the governing board (without donor restrictions) and of those resources over which SBWIB, Inc. has little, if any, discretion as to use because of externally imposed restrictions (with donor restrictions).

i. Contributions and Revenue Recognition

In accordance with ASC 958-605-50, revenues from contributions are recognized pursuant to the terms specified by the donor. Contributions are recognized at the earlier of the date receipt of funds or the date of a formal, unconditional pledge from known donors.

Unconditional contributions are measured at fair value when received or promised and reported as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions, including inherent time restrictions. When a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support.

j. Donated Materials and Services

SBWIB, Inc. received donations of time and materials for which no objective basis is available to obtain a measure of value. Therefore, no amounts have been included in the accompanying financial statements.

k. Expense Recognition and Allocation

The cost of providing SBWIB, Inc.'s programs and other activities is summarized on a functional basis in the statements of activities and statements of functional expenses. Expense that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited on the basis of periodic time or usage studies.

Accordingly, certain costs have been allocated to program services, management and general or fundraising services. The functional classifications are defined as follows:

- Program service expenses consist of costs that are either directly or indirectly allocable to its stated mission and program.
- Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of SBWIB, Inc.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Expense Recognition and Allocation (continued)

- Fundraising expenses are expensed as incurred, even though they may result in contributions received in future years. SBWIB, Inc. generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs have been allocated between fundraising and general and administrative expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

l. Income Taxes

SBWIB, Inc. is organized as a California nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and has been determined not to be private foundation under IRC Sections 509(a). SBWIB, Inc. is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, SBWIB, Inc. is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes.

SBWIB, Inc. is not subject to unrelated business income tax and, therefore, has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

SBWIB, Inc. adopted the provisions of FASB interpretation No. 48 (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more likely than not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties and disclosure. FIN 48 did not have a material impact on SBWIB, Inc.'s financial position, results of operations, or cash flows.

GAAP provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by SBWIB, Inc. in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. SBWIB, Inc. is subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after the tax returns are filed.

NOTE 3: GRANTS RECEIVABLE

Grants receivable represent amounts due from various governmental agreements wherein services are performed under the contractual program guidelines. The amounts reflected as Grants Receivable are amounts due and owing for services performed and billed under the terms of the contracts. Since the receivables are due from governmental entities that have no history of nonpayment or default, management believes the total amount is wholly collectible and no reserve for uncollectible amounts was reflected in these financial statements.

The total grants receivable as of June 30, 2020 was \$4,695,631.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4: INVESTMENTS

Marketable Securities

SBWIB, Inc. accounts for investments in marketable securities under FASB ASC 958-320. In accordance with FASB ASC 958-320, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with realized and unrealized gains and losses included in the statement of activities.

As of June 30, 2020, this account is presented at market value and consists of bond funds amounting to \$1,614,605.

Investment income at June 30, 2020 is comprised of the following:

	<u>Amount</u>
Interest and dividends	\$ 69,440
Realized loss	<u>(48,751)</u>
Investment income	<u>\$ 20,689</u>

Fair Value Measurements

SBWIB, Inc. follows ASC 820-10-50, for its financial instruments measured at fair value on a recurring basis. ASC 820-10-50 provides a framework for measuring fair value under generally accepted accounting principles, expands disclosures about fair value measurements, and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy can be summarized as follows:

- Level 1 Inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices within Level 1 that are observable, either directly or indirectly such as quoted prices for similar assets or liabilities. In active markets or inactive markets, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 Inputs are unobservable. Valuation for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuation incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

SBWIB, Inc. uses appropriate valuation techniques based on the available inputs to measure the fair value of their investments. When available, SBWIB, Inc. measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 4: INVESTMENTS (continued)

Fair Value Measurements (continued)

SBWIB, Inc.'s investments measured at fair value on a recurring basis are summarized below:

Financial Instrument	Fair Value Hierarchy	Fair Value at June 30, 2020
Publicly traded bonds	Level 1	\$ 1,614,605

NOTE 5: PREPAID EXPENSES

Prepaid expenses consist of amounts paid in advance for items that had not yet occurred as of the end of the fiscal year period. The prepaid expenses included the rent paid in advance, prepaid insurance premiums, etc. As of June 30, 2020, the amount of prepaid expenses was \$131,940.

NOTE 6: DEPOSITS

As of June 30, 2020, SBWIB, Inc. paid security deposits in the total amount of \$64,067, which are held by the lessors of the various office premises. The security deposits will be refunded to SBWIB, Inc. upon expiration of the leases.

NOTE 7: COMPENSATED ABSENCES

Compensated absences consist of vacation and other compensated absences with similar characteristics that were earned but not used during the current or prior periods and for which employees can receive compensation in a future period. Benefits that have been earned but are expected to lapse and thus not result in compensation to employees are not accrued as a liability. Benefits that have been earned but are not yet available for use as paid time off or as some other form of compensation because employees have not met certain conditions (i.e., a minimum service period for new employees) are accrued to the extent it is probable that the employees will meet the conditions for compensation in the future. As of June 30, 2020, compensated absences amounted to \$489,887.

NOTE 8: DEFERRED REVENUE

Deferred revenue is comprised of payments received in 2020 for programs yet to be completed through June 30, 2020. As of June 30, 2020, deferred revenue amounted to \$13,780.

NOTE 9: COMMITMENTS

Office Lease: Main Office – Hawthorne

SBWIB, Inc. leases its primary office space in Hawthorne under a five-year operating lease commencing on November 16, 2010. On September 2, 2014, the lease term was extended until August 31, 2016. A 6th amendment to the lease dated August 1st, 2019, extended the lease term until August 31, 2024 reflecting a current base lease rate of \$21,606.51, plus the common areas maintenance fees and parking.

**SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 9: COMMITMENTS (continued)

Office Lease: Main Office – Hawthorne (continued)

Future annual minimum lease payments are as follows:

Period	Basic Rent	Est CAM	Parking
07/01/20 - 06/30/21	\$ 266,072.62	\$ 28,708.00	\$ 3,600.00
07/01/21 - 06/30/22	274,226.02	29,569.00	3,600.00
07/01/22 - 06/30/23	282,379.42	30,456.20	3,600.00
07/01/23 - 08/31/24	290,532.82	31,369.80	3,600.00
09/01/24 - 08/31/24	48,646.20	5,253.80	600.00
Total	<u>\$ 1,161,857.08</u>	<u>\$ 125,356.80</u>	<u>\$ 15,000.00</u>

Rent expense for the year ended June 30, 2020 amounted to \$257,860.

Office Lease: Inglewood One-Stop (IOS)

In August 2010, SBWIB, Inc. entered into a lease agreement to rent premises consisting of 27,873 square feet with a lease rate of \$11,149 per month. The term of the agreement commenced on September 1, 2010 and ended on August 31, 2015.

On February 1, 2012, SBWIB, Inc. entered into a 3rd amendment to lease agreement to add Suite 420 with the term commencing on February 1, 2012 and ended on December 31, 2014.

On October 3, 2012, SBWIB, Inc. entered into a 4th amendment to lease agreement to add Suite 270 with the term commencing on November 1, 2012 and ended on December 31, 2014.

On March 7, 2015, the 5th amendment to the lease extended the term until August 31, 2016.

On September 1, 2016, SBWIB, Inc. entered into a 6th amendment that extended the term for a period of five (5) years, to August 31, 2021. A 7th amendment to the lease agreement was signed to correct error in computation of the space leased.

Future annual minimum lease payments are as follows:

Year end June 30, 2021	\$ 620,881
July 1 - August 31, 2021	104,270
	<u>\$ 725,151</u>

Rent expense for the year ended June 30, 2020 amounted to \$592,444.

Office Lease: Gardena One-Stop

In December 2014, SBWIB, Inc. entered into an assignment of lease to rent premises consisting of approximately 3,238 square feet located at Gardena, California with a lease rate of \$4,723 per month. The term of the agreement commenced on January 1, 2014 and ended on June 30, 2016.

On July 1, 2016, SBWIB, Inc. entered into the 1st amendment to the lease agreement to extend the period of the lease to June 30, 2017 with a lease rate of \$4,850 per month.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 9: COMMITMENTS (continued)

Office Lease: Gardena One-Stop (continued)

On July 1, 2017, SBWIB, Inc. entered into a new amendment to the lease agreement to expand the premises and extend the period of the lease to October 31, 2022, with a lease rate of \$7,265 per month and after April 30, 2020 at the rate of \$7,815.

Future annual minimum lease payments are as follows:

Year end June 30, 2021	93,780
Year end June 30, 2022	93,780
July 1 – October 31, 2022	31,260
	<u>\$ 218,820</u>

Rent expense for the year ended June 30, 2020 amounted to \$88,280.

Office Lease: Torrance One-Stop

On July 1, 2015, SBWIB, Inc. entered into a lease agreement to rent premises consisting of approximately 3,317 square feet with a lease rate of \$4,245.75 per month. The term of the agreement commenced on July 1, 2015 and is month-to-month.

Rent expense for the year ended June 30, 2020 amounted to \$50,949.

Facility Cost-Share: Pomona One-Stop

On December 1, 2015 SBWIB, Inc., entered into a Memorandum of Understanding with the San Gabriel Valley Conservation Corps (SGVCC) to pay a percentage of total facility costs with a rate of \$1,006.85 per month, calculated on the percentage of SBWIB, Inc. and SGVCC staff occupying the facility. The term of the agreement started in December 1, 2015 and is month-to-month.

Facility cost-share expense for the year ended June 30, 2020 amounted to \$12,083.

Office Lease: Lennox One-Stop

On September 1, 2018, SBWIB, Inc. entered into a lease agreement to rent premises consisting of a modular unit located at 5021 Lennox Blvd., in Lennox, CA, with a lease rate of \$1,389.46 per month; after January 1, 2019, at the lease rate of \$1,395.80 and after July 31, 2019 at the rate of \$1,682.47. The term of the agreement is month to month.

Rent expense for the year ended June 30, 2020 amounted to \$19,903.

Commitments Summary

SBWIB, Inc.'s total aggregate rent expense for the year ended June 30, 2020 for all leased properties amounted to \$1,021,519, which was included in the Occupancy expense totaling \$1,321,672.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 10: CONTINGENCIES

From time to time, SBWIB, Inc. may be involved in litigation that arises in the ordinary course of business. There are no pending legal proceedings to which SBWIB Inc. is a party for which management believes the ultimate outcome would have a material adverse effect as of June 30, 2020.

NOTE 11: RENTAL INCOME

SBWIB, Inc. entered into several sublease agreements with several different entities at their premises in the cities of Inglewood and Hawthorne, both located in Los Angeles County.

SBWIB, Inc. entered into a sublease agreement with the State of California's Employment Development Department ("EDD") on October 12, 2011 (original contract) at \$11,657 per month for a term not exceeding two years unless extended, The lease covers approximately 6,301 square feet of space on the 1st, 3rd & 5th floors at their premises in 110 South La Brea Avenue, Inglewood, California. This agreement allows the EDD to terminate the sublease at any time. Current term covers two years from July 1, 2020 until June 30, 2022. Absent a formal extension, the lease agreement shall become a month-to-month lease. Total rental income for the year ended June 30, 2020 for the EDD agreement was \$139,882.

SBWIB, Inc. entered into a month-to-month sublease agreement with New Opportunities Charter School ("School") on October 8, 2014. The lease covers approximately 1,105 square feet of space on the 3rd floor at their premises on 110 South La Brea Avenue, Inglewood, California. The monthly rent was \$2,312.17 from July to October 2018, \$2,378.69 from November 2018 to September 2019, and 3,337.15 from October 1, 2019. On September 17, 2017, another agreement was entered into for 837 sq. ft. at 16801 S Western Avenue, in Gardena, California. The monthly rent was \$2,383 thru April 30, 2020, and 2,563.42 after May 1, 2020. Total rental income for the year ended June 30, 2020 for the two School agreements was \$64,702.

SBWIB, Inc. entered into a month-to-month sublease agreement with PDA Consulting Group ("PDA") on November 23, 2016 at \$1,372 per month. The lease covers approximately 679 square feet of space on the 4th floor at their premises on 110 South La Brea Avenue, Inglewood, California. Total rental income for the year ended June 30, 2020 for the lease agreement was \$4,115.

SBWIB, Inc. entered into a sublease agreement with Friends Outside LA County on October 1, 2017. The lease covers approximately 524 square feet of space on the 2nd floor, at the premises on 110 South La Brea Avenue, Inglewood, California. Monthly rent is \$995.16 through August 31, 2018, \$1,021 after this date, through June 30, 2020, and 1,451.2 after July 1, 2020. Total rental income for the year ended June 30, 2020 under this lease agreement was \$19,169.

SBWIB, Inc. entered into a sublease agreement with SER on August 28, 2019. The lease covers approximately 147 square feet of space on the 5th floor, at the premises on 110 South La Brea Avenue, Inglewood, California. Monthly rent is \$371.33 through August 31, 2020. Total rental income for the year ended June 30, 2020 under this lease agreement was \$4,456.

SBWIB, Inc. entered into a month-to-month sublease agreement with Propath Incorporated ("Propath") on July 1, 2018 at \$1,795.70 per month. The lease covers approximately 354 square feet of space on 1220 Engracia Avenue, in Torrance, California. Total rental income for the year ended June 30, 2020 under the lease agreement was \$21,548.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 11: RENTAL INCOME (continued)

SBWIB, Inc. entered into a month-to-month sublease agreement with the Department of Rehabilitation (DOR) on July 1, 2016. The lease covers approximately 94 square feet of space on 16801 S Western Avenue, in Gardena, California. The monthly rent was 513.91 per month thru April 30, 2020, and 528.21 after May 1, 2020. Total rental income for the year ended June 30, 2020 for the lease agreement was \$6,121.

SBWIB, Inc. entered into a month-to-month sublease agreement with Visionary Ideas, Inc. on March 1, 2019 at \$1,684.28 per month. The lease covers approximately 1,904 square feet of space on 5021 Lennox Blvd., in Lennox, California. Total rental income for the year ended June 30, 2020 for the lease agreement was \$26,948.

SBWIB, Inc.'s total aggregate rental income from subleases for the year ended June 30, 2020 amounted to \$286,941, including reimbursements for phones and internet expenses totaling \$313,388.

NOTE 12: PENSION PLAN

Effective September 1, 2010, SBWIB, Inc. adopted a defined contribution pension plan under IRC 403(b) for all employees working full-time for a minimum of three (3) months. Upon becoming an eligible participant in SBWIB, Inc.'s California Tax Deferred Annuity Plan (the "Plan"), the employee can contribute up to a maximum of 20% of their wages subject to various IRS limitations. SBWIB, Inc. provides a contribution match of up to 100% of each employee's contribution and subject to a three (3) year vesting schedule (i.e. 33%, 66%, and 100%).

For the year ended June 30, 2020, contributions were made by the employer in the amount of \$344,432 and by the employees in the amount of \$382,426. The administrative expenses charged to the benefits pension plan was \$2,250.

NOTE 13: ADVERTISING

Advertising costs are expensed as incurred and included in the statement of functional expenses. Advertising expense for the fiscal year ended June 30, 2020 was \$5,625.

NOTE 14: CONCENTRATION OF RISKS

Financial instruments, which potentially subject SBWIB, Inc. to concentrations of credit risk, consist of cash, investment and grants receivable. Cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At June 30, 2020, SBWIB, Inc. had \$1,594,641 of uninsured cash bank balances.

Investment accounts are protected by the Securities Investors Protection Corporation (SIPC) up to \$500,000 per SIPC member. At June 30, 2020, SBWIB, Inc. had investments amounting to \$1,114,605, which were not protected under SIPC.

SBWIB, Inc. derives approximately 92.9% of its revenues from the federal government. While each federal program individually may not pose a threat of a severe impact, the group concentration on the federal government as a whole might reasonably make SBWIB, Inc. vulnerable to financial risk in the event such federal funding is materially decreased.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 15 – COVID-19 EFFECTS

In March 2020, the state of California went into lockdown due to the COVID-19 pandemic. SBWIB, Inc. established alternative methods to continue its operations and to maintain the safety of its employees and clients. The Chief Executive Officer, along with the Board, directed management and staff to work from home.

Training of its clients and participants were conducted via emails, phone calls and virtual meeting applications. Managers and supervisors held meetings remotely via virtual meeting applications. Once the surge subsided, rotation of staff in the office was implemented to add to the work-from-home policy.

SBWIB, Inc. adopted health protocol guidelines provided by the Los Angeles County of Public health by procuring items such as plexi-glass dividers, masks, face shields, hand sanitizers and other cleaning supplies and services.

SBWIB Inc.'s financial standing remained intact since all grant agreements were approved and in place. However, reimbursement checks and payments were delayed due to the offices of the U.S. Department of Labor, Housing, Transportation and Health and Human Services being closed and its staff working from home. Additionally, the SBWIB Inc.'s fee-for-services income and donation income decreased.

NOTE 16: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that were attributed to more than one program or supporting function. Therefore, expenses required allocation on a reasonable basis that were consistently applied. The expenses that were allocated include occupancy, depreciation, and amortization, which were allocated generally on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and others, allocated on the basis of estimates of time and effort.

NOTE 17: RELATED PARTY TRANSACTIONS

There were no related party transaction for the year ended June 30, 2020.

NOTE 18: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and Cash Equivalents	\$	1,846,051
Grants Receivable		4,695,631
Investments		<u>1,614,605</u>
Total	\$	<u>8,156,287</u>

As part of SBWIB, Inc.'s liquidity management plan, cash is retained in excess of daily requirements in short-term instruments such as, CDs, and money market funds. Occasionally, the Board may designate a portion of any operating surplus (if any) to its investments, which totaled \$1,614,605 as of June 30, 2020.

SOUTHBAY WORKFORCE INVESTMENT BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 19 – NEW ACCOUNTING PRONOUNCEMENTS

ASU 2016-02

For lessees, any leases that are over 12 months in duration will need to be presented on SBWIB, Inc.'s statement of financial position as a right-to-use asset and corresponding liability for the obligation to pay rent. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional renewal periods if the lessee is reasonably certain to exercise an option to extend the lease. The present value should be calculated using the discount rate implicit in the lease (if determinable) or the lessee's incremental borrowing rate. The asset will be depreciated, and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. As of this report date, ASU 2016-02 will be effective for fiscal years beginning after December 15, 2020. Early adoption is allowed.

NOTE 20: SUBSEQUENT EVENTS

In accordance with ASC 855, subsequent events through March 5, 2021, the date of these financial statements were evaluated. There were no other material subsequent events that required recognition or additional disclosure in these financial statements.

**SOUTH BAY WORKFORCE INVESTMENT BOARD, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

Federal Grantor/Pass-Through Grantor/ Title	Program	CFDA Number	Pass-through Grantor's No.	Expenditures	Amount Paid to Subrecipients
<u>Direct Grants</u>					
<u>U.S. Department of Labor</u>					
Youth Build		17.274	YB-26240-14-60-A-6/ YB-34250-19-60-A-6	\$ 407,629	\$ 26,250
<i>Total U.S. Department of Labor - Direct Grants</i>				407,629	26,250
<u>U.S. Department of Labor</u>					
<u>Workforce Investment Act /Workforce Innovation and Opportunity Act Cluster</u>					
<i>Passed through the State of California EDD</i>					
DW, RR		17.278	K9110051/AA011031	2,093,791	506,141
Adults		17.258	K9110051/AA011031	1,387,313	-
Youth		17.259	K9110051/AA011031	1,371,710	-
Rapid Reemployment		17.278	K7102065	510,783	105,150
VEAP		17.258	K7102065	178,047	-
Disability Employment Accelerator		17.258	K8106672	109,365	66,450
Trade and Economic Transition Accelerator		17.278	K9110051	605,685	47,638
		17.258	K9110051	62,946	10,837
COVID19 Emergency Assistance		17.258	K9110051	110,463	22,005
COVID19 Supportive Services		17.258	AA011031	1,680	-
COVID 19 Employment Response		17.258	AA011031	1,512	-
<i>Total Passed through the State of California EDD</i>				6,433,295	758,221
<i>Passed through the City of Pasadena (Foothill)</i>					
Adult		17.258	31641	8,692	
Youth		17.259	31641	0	
DW, VEAP, Hire Path		17.278	31641	544,753	
<i>Total Passed through the City of Pasadena</i>				553,445	-
<i>Passed through the County of Los Angeles</i>					
ITA Contract - Adult		17.258	ETPL171901	45,000	
ITA Contract - DW		17.278	ETPL171901	45,000	
<i>Total Passed through the County of Los Angeles</i>				90,000	-
<i>Passed through City of Los Angeles</i>					
I-TRAIN		17.258	C-134081/T6641	50,000	
Regional Planning Unit RN Special Training		17.258	C-131788/T6367	4,644	
Regional Plan Unit RN Aeroflex Preapprenticeshi		17.258	C-131788/T6367	47,799	
Regional Planning Unit RN P3 Initiative		17.258	C-131788/T6367	10,741	
<i>Total Passed through City of Los Angeles</i>				113,184	-
<i>Passed through JVS AJCC</i>					
Construction Career Pathway		17.258	19-W381	6,556	
<i>Total Passed through JVS AJCC</i>				6,556	-

**SOUTH BAY WORKFORCE INVESTMENT BOARD, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

Federal Grantor/Pass-Through Grantor/ Title	Program	CFDA Number	Pass-through Grantor's No.	Expenditures	Amount Paid to Subrecipients
<i>Passed through SELACO WIB</i>					
Regional Training		17.258	149004	2,100	
<i>Total Passed through SELACO WIB</i>				2,100	-
Total WIA / WIOA Cluster				7,198,580	758,221
<i>Passed through Friends Outside LA County</i>					
Passport to Success		17.270	16-W029	45,671	
Ready to Work Academy		17.270	20-W094	57,129	
<i>Total Passed through Friends Outside LA County</i>				102,800	-
<i>Passed through the Los Angeles Community College District - West LA College</i>					
Growing Advance Manufacturing Apprentices Acro		17.268	4500281370	33,626	
<i>Total Passed through the Los Angeles Community College District - West LA College</i>				33,626	-
<i>Total U.S. Department of Labor</i>				7,742,635	784,471
<u>Corporation of National and Community Services</u>					
<i>Passed through Youth Build USA</i>					
Americorp		94.006	19-W425	111,894	
<i>Total Passed through Youth Build USA</i>				111,894	-
<i>Total Corporation of National and Community Services</i>				111,894	-
<u>U.S. Department of Justice</u>					
<i>Passed through Youth Build USA</i>					
Mentoring		16.726	#2016-JU-FX-0011	14,126	
<i>Total Passed through Youth Build USA</i>				14,126	-
<i>Total U.S. Department of Justice</i>				14,126	-
<u>U.S. Department of Housing</u>					
<i>Total Passed through LA County CDBG</i>					
HRRP		14.218	110277	94,401	-
<i>Total Passed through LA County CDBG</i>				94,401	-
<i>Total U.S. Department of Housing</i>				94,401	-
<u>U.S. Department of Transportation</u>					
<i>Passed through CalTrans</i>					
Caltrans		20.205	88A0128	293,910	-
<i>Total Passed through Caltrans</i>				293,910	-
<i>Total U.S. Department of Transportation</i>				293,910	-

**SOUTH BAY WORKFORCE INVESTMENT BOARD, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

Federal Grantor/Pass-Through Grantor/ Title	Program	CFDA Number	Pass-through Grantor's No.	Expenditures	Amount Paid to Subrecipients
<u>U.S. Department of Health and Human Services</u>					
<i>Passed through Los Angeles County</i>					
Single Allocation - GAIN		93.558	WTW16-001	1,141,771	-
Single Allocation - STEP		93.558	WTW16-001	31,448,353	1,354,000
Single Allocation - Workstudy		93.558	WTW16-001	2,071,770	-
Single Allocation - DCFS		93.558	WTW16-001	515,127	49,200
Single Allocation - GROW		93.558	WTW16-001	786,183	42,000
Single Allocation - DCFS Probation		93.558	WTW16-001	63,000	-
Single Allocation - Youth Jobs		93.558	IA-0314	197,000	-
<i>Total Passed through Los Angeles County</i>				<u>36,223,204</u>	<u>1,445,200</u>
<i>Total U.S. Department of Health and Human Services</i>				36,223,204	1,445,200
<u>FEDERAL AWARDS TOTAL</u>				\$ 44,480,170	\$ 2,229,671

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "SEFA") includes the federal award activity of SBWIB, Inc. under programs of the federal government for the year ended June 30, 2020. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award (Uniform Guidance)*. Because the SEFA presents only a selected portion of the operations of SBWIB, Inc., it is not intended to and does not present the financial position, activities, or cash flows of SBWIB, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

SBWIB, Inc. did not elect the use of the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**SOUTH BAY WORKFORCE INVESTMENT BOARD, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP Unmodified

Internal control over financial reporting:

1) Material weakness(es) identified? yes no

2) Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

1) Material weakness(es) identified? yes no

2) Significant deficiency(ies) identified? yes none reported

Type of auditor's report issued on compliance for other major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? yes no

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
17.274	U.S. Department of Labor - Youth Build (Direct Grant)
WIA/WIOA Cluster (17.258, 17.259, 17.278)	U.S. Department of Labor - Workforce Investment Act/ Workforce Innovation and Opportunity Act Cluster Passed through the State of CA EDD, City of Pasedena (Foothill), City of Los Angeles and SELACO WIB
93.558	U.S. Department of Health and Human Services - LA County Single Allocation (GAIN, STEP, Workstudy, DCFS, GROW, DCFS Probation, Youth Jobs)

Dollar threshold used to distinguish between Type A and Type B programs: \$1,334,405

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

None reported.

Section III - Federal award Findings and Questioned Costs

None reported.

**SOUTH BAY WORKFORCE INVESTMENT BOARD, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2020**

There were no prior audit findings and no corrective action plan.



Certified Public Accountants

Zuehls, Legaspi & Company

350 S. Figueroa Street, Suite 437
Los Angeles, California 90071
Tel: 213-972-4033 Fax: 213-972-4034

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 of
South Bay Workforce Investment Board, Inc.
Hawthorne, 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 South Bay Workforce Investment Board, Inc. (SBWIB, Inc.), a nonprofit organization, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SBWIB, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBWIB, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the SBWIB, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SBWIB, Inc.'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*.

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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SBWIB, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of SBWIB, Inc.'s Board of Directors and management, federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than the specified parties.

Zucchi, Legaspi & Co.

Los Angeles, California
March 5, 2021



Certified Public Accountants

Zuehls, Legaspi & Company

350 South Figueroa Street, Suite 437
Los Angeles, California 90071
Tel: 213-972-4033 Fax: 213-972-4034

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
South Bay Workforce Investment Board, Inc.
Hawthorne, California

Report on Compliance for Each Major Federal Program

We have audited South Bay Workforce Investment Board, Inc.'s (SBWIB, Inc.) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of SBWIB, Inc.'s major federal programs for the year ended June 30, 2020. SBWIB, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SBWIB, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SBWIB, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SBWIB, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, SBWIB, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of SBWIB, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SBWIB Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SBWIB, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Los Angeles, California
March 5, 2020