

LAFCO

Santa Barbara Local Agency Formation Commission
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February 2, 2012 (Agenda)

Local Agency Formation Commission
105 East Anapamu Street, Room 403
Santa Barbara CA 93101

Completed Financial Audit for Fiscal Years Ending June 30, 2009 and 2010

Dear Members of the Commission:

RECOMMENDATION

It is recommended the Commission receive and accept Financial Statements for the fiscal years ending June 30, 2009 and June 30, 2010 that accompany this report.

DISCUSSION

The firm of Bartlett, Pringle & Wolf, LLP having reviewed the Commission's financial records completed the enclosed Independent Auditor's Report for the Fiscal-Years 2009 and 2010.

Given the routine nature of this report without recommendations to modify procedures we have not asked Bartlett, Pringle & Wolf, LLP to attend the February 2 meeting but the company is available to attend a future meeting if requested to discuss their report or findings.

Last November, anticipating the December and January Commission meetings may be cancelled, we provided members of the Commission with these Financial Statements for your review and information, along with other documents from our file which contributed to the audits.

Please contact the LAFCO office if you have any questions.

Very truly yours,



BOB BRAITMAN
Executive Officer

cc: John J. Britton, Bartlett, Pringle & Wolf, LLP
Bob Geis, County Auditor Controller (with report)

Commissioners: Janet Wolf, Chair ♦ Lupe Alvarez ♦ Doreen Farr ♦ Jeff Moorhouse ♦ Bob Orach ♦ Cathy Schlottmann
Bob Short ♦ Joe Armendariz ♦ John Fox ♦ Steve Lavagnino ♦ Roger Welt
Executive Officer: Bob Braitman

AGENDA ITEM NO. 10



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

October 5, 2011

Members of the Commission
Santa Barbara Local Agency Formation Commission
105 East Anapamu Street
Santa Barbara, CA 93101

Dear Members of the Commission:

We are pleased to present this letter related to our audit of the financial statements of the Santa Barbara Local Agency Formation Commission (the Commission) for the year ended June 30, 2010. This letter summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Commission's financial reporting process.

Auditors' Responsibility Under Professional Standards

As stated in our engagement letter dated June 1, 2010, our responsibility is to conduct our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error, fraudulent financial reporting, or misappropriation of assets. Accordingly, a material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets, may remain undetected. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. As a result, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our report.

An audit of financial statements also includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses.

Accounting Practices

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Commission. The Commission did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Alternative Treatments Discussed with Management

We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.

Management's Judgments and Accounting Estimates

We noted no significant accounting estimates reflected in the Commission's financial statements.

Audit Adjustments

An audit adjustment in the amount of \$1,517 was required to be made to the financial statements in order to record accounts payable at June 30, 2010.

Uncorrected Misstatements

There were no uncorrected misstatements noted during our audit.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Members of the Commission
Santa Barbara Local Agency Formation Commission
October 5, 2011
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Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management during the audit.

Certain Written Representations Between Management and Our Firm

In conjunction with the audit of the financial statements, we have been provided a letter of certain representations from management.

Conclusion

This letter is intended solely for the information and use of the Members of the Commission and is not intended to be and should not be used by anyone other than the Members of the Commission.

Bartlett, Pringle + Wolf, LLP

BARTLETT, PRINGLE & WOLF, LLP
Certified Public Accountants and Consultants

SANTA BARBARA LOCAL
AGENCY FORMATION COMMISSION
JUNE 30, 2010 AND 2009
FINANCIAL STATEMENTS



BARTLETT, PRINGLE & WOLF, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**SANTA BARBARA LOCAL AGENCY FORMATION
COMMISSION**

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October 5, 2011

INDEPENDENT AUDITORS' REPORT

**To the Members of the Commission
Santa Barbara Local Agency Formation Commission:**

We have audited the accompanying financial statements of the Santa Barbara Local Agency Formation Commission (the "Commission") as of June 30, 2010 and 2009 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented the Management Discussion and Analysis which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the Commission's basic financial statements. The supplementary information listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Commission. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bartlett, Pringle + Wolf, LLP

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION
BALANCE SHEET
June 30, 2010 and 2009

	2010	2009
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 18,945	\$ 34,030
Accounts receivable	283	283
Interest receivable	156	370
Total current assets	19,384	34,683
Total assets	\$ 19,384	\$ 34,683
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Contingent liability	\$ 40,000	40,000
Accounts payable and advances	52,559	35,385
Total current liabilities	92,559	75,385
Net Assets:		
Unrestricted	(73,175)	(40,702)
Total liabilities and net assets	\$ 19,384	\$ 34,683

See accompanying notes

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Other governmental agencies	\$ 284,213	\$ 280,877
Planning study services	11,535	8,885
Miscellaneous revenue	521	50
	<u>296,269</u>	<u>289,812</u>
Total operating revenues		
Operating Expenses:		
Audit fees	9,200	2,850
Comminucations	38	0
Contractual services	168,984	168,984
Copier expense	3,713	3,677
Cost allocations	12,602	(1,160)
Legal fees	59,371	64,944
Liability insurance	2,671	2,669
Memberships	2,935	2,935
Office expense	986	1,154
Payroll taxes	1,778	1,985
Payroll fees	1,207	1,157
Postage	1,818	1,208
Professional and special services	26,033	7,474
Publications and notices	1,456	2,529
Transportation and travel	22,143	20,839
Telephone services	317	330
Utilities	844	867
Salaries and wages	14,213	15,075
	<u>330,309</u>	<u>297,517</u>
Total operating expenses		
Loss from operations	<u>(34,040)</u>	<u>(7,705)</u>
Non-Operating Revenue (expenses):		
Contingency	-	(40,000)
Interest income	1,567	3,315
	<u>1,567</u>	<u>(36,685)</u>
Total non-operating revenue (expense)		
Change in net assets	(32,473)	(44,390)
Net assets, beginning of year	<u>(40,702)</u>	<u>3,688</u>
Net assets, end of year	<u>\$ (73,175)</u>	<u>\$ (40,702)</u>

See accompanying notes

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from customers	\$ 296,269	\$ 289,812
Payments to vendors	<u>(313,135)</u>	<u>(276,970)</u>
Net cash provided (used) by operating activities	<u>(16,866)</u>	<u>12,842</u>
Cash flows from investing activities:		
Interest received	<u>1,781</u>	<u>3,519</u>
Net cash provided by investing activities	<u>1,781</u>	<u>3,519</u>
Net increase (decrease) in cash	(15,085)	16,361
Cash, beginning of year	<u>34,030</u>	<u>17,669</u>
Cash, end of year	<u>\$ 18,945</u>	<u>\$ 34,030</u>
Reconciliation of loss from operations to net cash used by operating activities:		
Loss from operations	\$ (34,040)	\$ (7,705)
Changes in assets and liabilities:		
Accounts payable and advances	<u>17,174</u>	<u>20,547</u>
Net cash provided (used) by operating activities	<u>\$ (16,866)</u>	<u>\$ 12,842</u>

See accompanying notes

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Organization

The Santa Barbara Local Agency Formation Commission (the Commission) is an independent agency created in 1963, by the legislature in Santa Barbara County. The Commission works closely with citizens, the county, cities and special districts on a variety of issues concerning the organization of local governments, jurisdiction changes, and public services. The Commission's statutory purpose includes discouraging urban sprawl, preserving agricultural land, and encouraging orderly boundaries based upon local circumstances and conditions, and promoting adequate public services. From its creation in 1963 to June 30, 2001, the County of Santa Barbara funded the Commission. Beginning July 1, 2001, the *Cortese/Knox/Hertzberg Local Reorganization Act* redefined the Commission's responsibilities and established a new funding method and process. The Commission, after accounting for charges and services is now funded in equal thirds by (1) the County of Santa Barbara, (2) the cities and (3) the independent special districts in Santa Barbara. The Commission adopts its annual budget by June 15 of each year and transmits it to each of the member organizations.

Note 2 - Summary of Significant Accounting Policies

A) Basis of Accounting

The Commission reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the Commission is that the costs of operating on a continuing basis be financed or recovered primarily through revenues generated by the Commission. Revenues and expenses are recognized on the accrual basis, as such revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Under the provisions of Governmental Accounting Standards Board (GASB) Pronouncement 20, the Commission has elected to follow all GASB pronouncements and Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, except for those that conflict with GASB pronouncements.

B) Cash

For purposes of reporting in the statement of cash flows, the Commission considers all cash accounts with original maturity of three months or less to be cash equivalents.

C) Member Allocations

All member organizations are required to pay an allocation of costs of the annual Commission's budget.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

D) Revenue

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. Operating expenses from proprietary funds include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E) Use of Estimates

The preparation of 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 amounts reported in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

F) Net Assets

GASB No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 3 - Cash

The Commission maintains all of its cash in the Santa Barbara County Treasury. The County Treasurer pools and invests the Commission's cash with other funds under its control. Interest earned on pooled investments is apportioned quarterly into participating funds based upon each fund's average daily balance.

A summary of cash as reported on the statement of net assets and statement of cash flows, respectively, at June 30, 2010 and 2009 is as follows:

	2010	2009
Cash with the County Treasurer	\$ 18,945	\$ 34,030
Total cash	\$ 18,945	\$ 34,030

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3 - Cash (Continued)

Investment Authorized by the California Government Code and the Entity's Investment Policy

The Commission's investment policy only authorizes investment in the local government investment pool administered by the County of Santa Barbara. The Commission's investment policy does not contain any specific provisions intended to limit the Commission's exposure to interest rate risk, credit risk, and concentration of credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and the Commission's investment policy, and the actual rating as of the year end for each investment type.

<u>2010</u>		Minimum Legal Rating	Exempt From Disclosure	<u>Rating as of Year End</u>		
<u>Investment Type</u>	<u>Amount</u>			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Santa Barbara County Investment Pool	\$ 18,945	N/A	\$ -	\$ -	\$ -	\$ 18,945
Total	<u>\$ 18,945</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,945</u>
<u>2009</u>						
Santa Barbara County Investment Pool	\$ 34,030	N/A	\$ -	\$ -	\$ -	\$ 34,030
Total	<u>\$ 34,030</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,030</u>

Concentration of Credit Risk

The investment policy of the Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. All of the Commission's cash is held in the Santa Barbara County Investment Pool.

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION

NOTES TO FINANCIAL STATEMENTS

Note 3 - Cash (Continued)

Custodial Credit Risk

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as Santa Barbara County Investment Pool).

Investment in Santa Barbara County Investment Pool

The Commission is a participant in the Santa Barbara County Investment Pool that is regulated by the California Government Code. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at the amounts based upon the Commission's pro-rata share of the fair value provided by the Santa Barbara County Investment Pool for the entire Santa Barbara County Investment Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the Santa Barbara Investment Pool, which are recorded on an amortized cost basis.

Note 4 - Contingent Liability

The Commission was involved in a lawsuit related to the completion of the Dos Pueblos Golf Course Annexation. On July 28, 2009, the trial court awarded \$185,801 in attorneys' fees against the Commission and real parties in interest. The Commission entered into an Indemnity and Hold Harmless Agreement with the owner of the property associated with the lawsuit. Under the terms of this agreement, the property owner agreed to reimburse the Commission for any attorney fees associated with the lawsuit. The appellate court found in the Commission's favor and reversed the trial court judgment. Legal expenses to help defend the Commission in this case have been reimbursed by the real party in interest in this case. The final payment of \$19,161 to reimburse the Commission was deposited on September 29, 2011.

Note 5 - Subsequent Events

Subsequent events have been evaluated through October 5, 2011, the date that the financial statements were available for issuance.

SUPPLEMENTAL SCHEDULES

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
ACTUAL VS. BUDGET
For the Year Ended June 30, 2010

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Other governmental agencies	\$ 279,986	\$ 284,213	\$ 4,227
Planning study services	12,000	11,535	(465)
Miscellaneous revenue	20,200	521	(19,679)
Total operating revenues	312,186	296,269	(15,917)
Operating Expenses:			
Audit fees	4,200	9,200	(5,000)
Communications	-	38	(38)
Contractual services	168,989	168,984	5
Copier expense	5,000	3,713	1,287
Cost allocations	12,602	12,602	-
Legal fees	40,000	59,371	(19,371)
Liability insurance	3,500	2,671	829
Memberships	3,035	2,935	100
Office expense	4,000	986	3,014
Payroll taxes	3,035	1,778	1,257
Payroll fees	1,125	1,207	(82)
Postage	3,000	1,818	1,182
Professional and special services	20,000	26,033	(6,033)
Publications and notices	1,000	1,456	(456)
Transportation and travel	21,000	22,143	(1,143)
Telephone services	300	317	(17)
Utilities	1,300	844	456
Salaries and wages	23,100	14,213	8,887
Total operating expenses	315,186	330,309	(15,123)
Loss from operations	(3,000)	(34,040)	(31,040)
Non-Operating Revenue:			
Contingency	-	-	-
Interest income	3,000	1,567	(1,433)
Total non-operating revenue (expense)	3,000	1,567	(1,433)
Change in net assets	\$ -	\$ (32,473)	\$ (32,473)

SANTA BARBARA LOCAL AGENCY FORMATION COMMISSION
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
ACTUAL VS. BUDGET
For the Year Ended June 30, 2009

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Other governmental agencies	\$ 180,030	\$ 280,877	\$ 100,847
Planning study services	27,800	8,885	(18,915)
Miscellaneous revenue	200	50	(150)
Total operating revenues	208,030	289,812	81,782
Operating Expenses:			
Audit fees	4,200	2,850	1,350
Contractual services	168,989	168,984	5
Copier expense	5,000	3,677	1,323
Cost allocations	6,000	(1,160)	7,160
Legal fees	20,000	64,944	(44,944)
Liability insurance	3,500	2,669	831
Memberships	2,935	2,935	-
Office expense	4,000	1,154	2,846
Payroll taxes	2,335	1,985	350
Payroll fees	1,745	1,157	588
Postage	4,000	1,208	2,792
Professional and special services	20,000	7,474	12,526
Publications and notices	1,000	2,529	(1,529)
Rents	3,800	-	3,800
Transportation and travel	21,000	20,839	161
Telephone services	300	330	(30)
Utilities	-	867	(867)
Salaries and wages	23,100	15,075	8,025
Total operating expenses	291,904	297,517	(5,613)
Loss from operations	(83,874)	(7,705)	76,169
Non-Operating Revenue:			
Contingency	-	(40,000)	(40,000)
Interest income	4,500	3,315	(1,185)
Total non-operating revenue (expense)	4,500	(36,685)	(41,185)
Change in net assets	\$ (79,374)	\$ (44,390)	\$ 34,984